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TABLE OF CONTENTS

PROPRIETARIES

I. INTRODUCTION AND PHILOSOPHY OF USE

Questions have arisen as to CIA's use of proprietary mechanisms to help carry out the Agency's missions. In particular, concerns have been expressed about the Agency's financial and management control over these entities and about the treatment of funds related to such entities. A careful review of these entities has revealed that CIA's proprietaries are appropriately limited and controlled with careful consideration given to their use within the spirit and letter of the law.

Proprietaries fall into two main categories:

1. Operating companies that actually do business as would any private firm; and
2. Non-operating companies or entities that appear to do business under commercial guise.

These entities may be legally constituted as corporations, partnerships, or sole proprietorships; or they may have no such legal standing, i.e., they may be "notional" entities which have bank accounts and backstopped addresses controlled by the Agency. Corporate proprietaries are incorporated in accordance with the statutory provisions of the jurisdiction of incorporation, are subject to the same review as any corporate entity within that jurisdiction, file applicable state and/or federal tax returns, and obtain the necessary licenses to conduct their normal business. The purposes served by them are two-fold: they provide cover, attribution for funding, and administrative assistance to agents

and covert activities; and they provide services not securely available through normal commercial facilities. Because these instrumentalities are established as private organizations, they must be established and managed, to the extent possible, in accordance with practice and requirements that are normal for the types of enterprises they give the appearance of being.

Of the legally constituted entities, the Agency uses the corporate form in most cases because of the advantages and flexibility of corporate management control. These corporations are legally organized under the laws of a state, country, or other jurisdiction and are either wholly owned by CIA or controlled through majority stock ownership. Services of bona fide businessmen are enlisted as nominee officers, directors, and stockholders.

The Agency generally has employed proprietaries when it was the only way, or clearly the best way, to achieve an approved objective. Under Agency rules proprietaries are established or allowed to continue in existence only so long as they contribute to accomplishment of the Agency's mission and remain the most advantageous operational means of achieving certain particular and necessary objectives. Current policy calls for limited use of operating proprietary mechanisms. The capability to use the mechanism is to be retained (this the Agency terms its "capability in being"), and smaller entities used.

A review of Agency files shows that the number of operating proprietaries has been consciously pared by about 50 percent since the mid 1960's. These reductions began as a result both of the Katzenbach guidelines associated with the National Student Association affair in 1967 and the CIA's own IG survey in that same year. In addition, the

need for proprietaries has declined as a result of a general shift in emphasis away from covert action; transfer of Radio Free Europe and Radio Liberty to the Board of International Broadcasting with funding through State Department; continuing liquidation of the assets of the Air America complex as requirements for CIA support in Southeast Asia have diminished; the sale of Southern Air Transport and the continuing liquidation of assets of Intermountain Aviation with their exposure in the press and the decreased need for contingency air capabilities.

The evidence establishes that activities of all proprietaries, directly or indirectly, support the Agency's foreign intelligence collectio or covert action missions. Some of these proprietaries are located within the United States for reasons of operational or administrative necessity, but their ultimate impact is overseas. Some of the questionable domestic uses of these entities is dealt with in the sections of the Report on "Chaos" and related programs. And in one area, MHMUTUAL, serious questions remain as to the propriety of using such a mechanism to provide insurance and retirement benefits. This problem is detailed later. (See Section VIII).

A. Operating Proprietaries

As discussed in greater detail later, operating proprietaries conduct business in the commercial sphere, but they are not in direct competititon with privately owned corporations to such a degree as to deprive the private companies of legitimate income. There is no doubt, however, that they were and are in competition. The Agency has been careful to limit the amount of commercial business engaged in by these proprietaries to only that necessary to support the viability of the commercial cover and keep it alive in the commercial world. Revenues

have been used as partial offsets to operating costs. Aggregate profits over the years have been relatively small. Only two proprietaries have shown significant profits: the Air America complex in fulfilling mostly Government contracts in Southeast Asia, and the insurance company handling trust funds and insurance (MHMUTUAL). The air proprietary overview, infra Section IX., details the dilemmas posed by size. Moreover, it sheds light on questions concerning whether commercial viability became more of a bronze god than was necessary to maintain adequate cover.

Operating proprietaries may be large or small in terms of capitalization and total assets, depending upon the functions they perform. When the commercial purpose of an operating proprietary is incidental to its CIA mission -- such as an export-import firm which engages in commercial operations only to the extent necessary to provide cover for a CIA officer in a foreign country -- a minimum capitalization, usually in the neighborhood of $25,000 or less, is all that is required. Examples of an operating proprietary in which commercial operations are incidental to the Agency mission are:

> A United States frozen seafood importing company which operates in the Far East and provides cover for an Agency employee engaged in intelligence activities. The Agency provided $25,000 in capital to purchase and activate a dormant but long-established privately-owned United States seafood distributing company. The former owner and his partner, who are cleared and witting, provide training, business management, and product distribution in the United States for one-half the profits on seafood imports financed by the proprietary. The Agency subsequently provided $10,000 annually for fiscal years 1972, 1973, and 1974 as working capital. The proprietary since 1971 has provided excellent cover with a minimum amount of business. As of 20 June 1974, the proprietary had assets of $104,222.67 and a net worth (assets minus liabilities) of $74,051.15. The company's financial accounts are handled by an Agency proprietary management firm.

A foreign travel service company which operates in a Southeast Asia country and provides cover for an agent targeted against the local Communist Party. The company was established in 1973 with an initial investment of $5,900.

Operating proprietaries whose commercial purposes are in themselves essential to the CIA mission require much larger capitalization and investment. They are staffed by Agency personnel plus cleared commercial employees as required. Among the Agency's operating proprietaries of this type are four management companies which provide commercial assistance to other proprietaries and an audit firm which conducts commercial audits of operating companies and those non-operating proprietaries with substantial assets. The Agency's largest operating proprietaries are Air America, an insurance complex, and the aviation facility, Intermountain Aviation, Inc. The assets of Intermountain have been sold, with operations ceasing on 28 February 1975, and the corporation is in the process of being dissolved.

Air America, the Agency's largest proprietary, which is in the process of liquidation, provided aircraft in support of Agency operations in Southeast Asia. This support has been under cover of a commercial flying service in fulfillment of U.S. Government contracts. Corporate Headquarters has been in Washington, D. C., with field Headquarters in Taipei, Taiwan.

The insurance complex provides a mechanism for the payment of annuities and other benefits to sensitive agents and for self-insurance of risks involved in covert operations which, for security reasons, cannot be attributed to the U.S. Government or handled through private firms. The complex was formed in 1962 as a clandestine commercial support mechanism to provide death and disability benefits to agents or their beneficiaries when security considerations precluded payments

attributable to the U.S. Government. This function was broadened to include self-insurance for many risks involved in covert operations, including property risks incurred by operational activities of Agency-owned air and marine companies. From an early date, the complex has administered agents' escrow accounts and life insurance, and provided annuity and pension programs for selected agent personnel employed by the Agency. These programs are solely for the purpose of meeting the Agency's obligations to agent-type personnel who have rendered services over a substantial period of time and cannot be handled under normal U.S. Government retirement programs. Individuals who qualify for the CIA Retirement System or the Civil Service System are not handled through the proprietary system. In addition, the complex has been used to provide a limited amount of support to covert operations -- specifically, for the acquisition of operational real estate and as a conduit for the funding of selected covert activities.

Intermountain Aviation, Inc., has the purpose of providing a variety of nonattributable air support capabilities available for quick deployment overseas to support Agency activities. The Agency is in the process of disposing of its assets and terminating this activity.

As of 1 July 1974 there were 71 operating proprietary companies, of which 21 are part of the Agency's proprietary insurance complex. The combined net worth (assets minus liabilities) of these companies is approximately $57.3 million. Although some, such as those in the insurance complex, are commercially self-supporting, most operating proprietaries usually require budgetary support.

B. Nonoperating Proprietaries

Nonoperating proprietaries vary in complexity according to their Agency task, are, for the most part, either corporate shells or less that facilitate foreign operations, and clearly pose no competitive threat to bona fide businesses. The most elaborate are legally licensed and established to conduct bona fide business. They have nominee stockholders, directors, and officers and are generally directed by one of four Agency proprietary management companies. The company address may be a Post Office Box, a legitimate address provided by a cleared and witting company official or attorney, or in a few cases the address of a proprietary management company. They maintain bank accounts, generate business correspondence, keep books of account which can withstand commercial and tax audit, file State and Federal tax returns, and perform normal business reporting to regulatory authorities in order to backstop fully their Agency tasks. They are moderately capitalized, generally around $5,000, and their net worth at any one time varies according to the Agency task they are performing. As of 31 December 1973, 38 of these companies had a combined net worth of approximately $325,000. Of this amount, almost $200,000 was operating capital for three companies which provide cover for several Agency personnel. Examples of two non-operating companies which are commercially managed, keep books of account, and can withstand commercial and tax audit are:

> A Florida corporation capitalized at $7,000 and whose legal address is the office of a cleared and witting attorney. Under the auspices of the Florida corporation, an Agency officer established a branch office in a Central American country and conducts a sporting goods business which provides him cover. Administration of the corporation, including purchase of inventory for the branch office, is handled by a proprietary management company.

> A Liechtenstein Anstalt which an Agency nominee established using a reliable but nonwitting Liechtenstein lawyer as a resident agent. The Anstalt was used to purchase a property in a European country from which an audio operation was mounted against an installation of a Communist country. Upon conclusion of the operation, the property will be sold by the Anstalt and the proceeds returned to CIA via its nominee.

Requiring less elaborate commercial administration because of the nature of Agency tasks performed are 31 legally incorporated companies which are directly managed by Agency Headquarters specialists operating in alias as signatories to the company bank accounts. Each of these companies generally have a capitalization of $5,000 or less and are domiciled in the offices of cleared and witting attorneys. No commercial books of account are kept, and in the event of a tax audit the Agency has to brief the auditing authority. Depending on use, administration may be as simple as maintaining bank accounts and filing annual franchise taxes or more extensive as required when obtaining Employee Identification numbers, paying personnel, withholding taxes and Social Security, and filing tax returns. Examples of this type of Headquarters-managed proprietary corporation are:

> A Nevada proprietary corporation domiciled at the offices of a California law form. Three members of the firm serve as Agency nominee stockholders, directors, and officers for the proprietary which holds title to two aircraft used by the Agency for flight training and testing avionics equipment. In this case, only administration is required to maintain a bank account, file a franchise tax, and coordinate with the law firm.

Although not proprietary corporations, but proprietaries in the sense of being Agency-owned and administered, are 64 ostensible sole-proprietorships. The Agency establishes and registers these sole-proprietorships in the name of fictitious persons and opens a bank

account on which Agency officers in alias have signatory power. Arrangements are made with cleared and witting businessmen to provide a domiciliary address for these entities at a law office or telephone answering service. These entities, like the proprietary corporation administered by Agency Headquarters specialists, provide cover, payrolling, and tax attribution for Agency personnel and are similarly administered.

Another type of entity used by the Agency and a proprietary only in the sense of being Agency-owned and administered is exemplified by some 215 notional companies which are not legally registered but have names and bank accounts controlled by the Agency. The Agency arranges with cleared and witting attorneys or proprietors of telephone answering services to provide a domiciliary address and to refer any queries to the Agency specialists concerned. These notional entities are used to provide status and operational cover for Agency personnel involved in all types of high-risk intelligence operations. They are also used as ostensible clients for purposes of funding Agency proprietaries or bona fide American companies which provide cover and payrolling of Agency personnel.

II. STATUTORY AUTHORITY FOR PROPRIETARIES

The Agency's statutory authority to spend money for proprietary corporations in support of Agency operations derives from Section 8(b) of the CIA Act of 1949. This Act states:

> "The sums made available to the Agency may be expended without regard to the provisions of law and regulations relating to the expenditure of Government funds; and for objects of a confidential, extraordinary, or emergency nature, such expenditures to be accounted for solely on the certificate of the Director and every such certificate shall be deemed a sufficient voucher for the amount therein certified."

The language contained in Section 8(b) is adequate authority to exclude the operation of these proprietary corporations from the law governing Government corporations in 31 U.S.C.A. 841 et. seq. However, the CIA General Counsel ruled in 1958 that the CIA should comply with the principles in that Act to the extent possible, and this has been done. Attached as Appendix A is a classified Memorandum of Law by the Agency's Office of General Counsel on CIA's authority to acquire and dispose of a proprietary without regard to provisions of the Federal Property and Administrative Services Act, which position was upheld by the U.S. District Court in the Southern District of Florida in dismissing the suit Farmer vs. Southern Air Transport on 17 July 1974.

III. SPECIFIC CONTROLS

The formation and activities of proprietaries are controlled through various mechanisms to assure their proper use, as discussed below.

A. Agency Regulations and Policies

Headquarters Regulation 230-8 and Headquarters Handbook 230-1 prescribe the administrative procedures to be followed in the establishment, operation, and liquidation of proprietaries (see Appendix B). An Administrative Plan (specifying the operational purpose, administrative and management procedures, and cost) and a Liquidation Plan (specifying details of liquidation and disposition of funds when liquidation is contemplated) must both be coordinated among components concerned and approved at appropriate management levels. This regulatory control along with policy memoranda are intended to assure

proper conduct by entities. Each Agency component involved is responsible for compliance, and the Chief of the Cover and Commercial Staff, the Director of Finance, and the Comptroller are particularly watchful in their areas of concern.

B. Project Reviews and Control

The controls and procedures applicable to each operating proprietary are specified in a project outline and administrative plan approved at the Deputy Director level. Normal control and administration is carried out by a project officer at Headquarters. Semi-annual reviews are conducted to determine whether or not the operational need still exists, and regular audits are performed to assure proper management and financial accountability. Proprietaries are liquidated as their usefulness ends; new ones are formed as needed.

C. Financial Controls/Operating Companies and Non-Operating Companies Keeping Books of Accounts

Under Agency regulations, these proprietaries are established and managed to appear to be consistent with normal commercial practices and requirements of the type of enterprise concerned. Specific requirements for the general management and financial controls of each such proprietary are provided in the administrative plan described above which specifies the basic framework within which the instrumentality is to operate. All facets of an administrative plan relating to funding the proprietary and its financial management are subject to the concurrence of designated representatives of the Director of Finance and the Comptroller. A primary purpose of this coordination is to assure that the financial controls and procedures prescribed

for the proprietary are compatible and consistent with normal practices and requirements for the type of instrumentality being established. The Director of Finance representative is the Chief of the Commercial Systems and Audit Division, a position normally occupied by a certified public accountant.

The initial and all subsequent passages of funds to such proprietaries are from the current year Agency operating budget. Receipts of funds by the proprietary are documented as appropriate ostensibly to appear to be from a source usual to a commercial enterprise of similar type, e.g., capital stock, paid in capital, income from ostensible sales, etc.

The Agency treats all disbursements to such proprietaries as current year budgetary expenditures and concurrently establishes as a control mechanism a fully reserved investment account which is reconciled periodically to reported net worth of the proprietary as reflected in required financial statements received from each proprietary. Each such statement is reviewed to reconcile the approved financial activity of the proprietary to reported changes in net worth before adjusting the Agency investment account to conform with the reported net worth.

All control documents evidencing Agency equity or interest in the proprietary, e.g., executed stock certificates, irrevocable stock powers, declaration of trust, etc., are held in safekeeping by the Commercial Systems and Audit Division/OF provided that when such documents need to be retained by the proprietary, a report will be made to identify the documents retained, location, name of custodian and reason for the retention, and copies of the documents, if appropriate.

The Chief of the Agency Audit Staff is responsible for the audit of Agency proprietaries, utilizing Audit Staff personnel under a suitable cover arrangement or witting or unwitting public accounting firms as is most appropriate to the requirements of a particular proprietary. An example of the type of audit conducted appears at p. 105 Section VIII and concerns MHMUTUAL, the proprietary insurance-investment complex.

D. Financial Controls/Non-Operating Companies Except Those Keeping Books of Account

Entities in this category are financed if financing is required through the establishment of bank checking accounts on which Agency officers have signatory power in alias. All such accounts are maintained in the accounting records of the Agency as current asset accounts subject to monthly reconciliation with statements of accounts issued by the depository banks.

All passages of funds to these accounts add to the accountable balance of the accounts. No income is produced by these activities. All disbursements from these accounts are charged as current expenditures in liquidation of obligations of the operational activity on behalf of which the entity was established.

Signatories are Agency officials who in each case execute a declaration of trust acknowledging Government ownership of the account. Payments are initiated only in response to request of an authorized official responsible for the operational activity for which the entity was established.

The Chief of the Agency's Audit Staff is responsible for the audit of all accounts maintained for these entities.

Balances of each of these accounts are monitored periodically to assure that balances do not exceed a level warranted by the activity for which the respective account was established. Balances excess to current requirements and balances for entities which are dissolved are returned to the Agency and in turn remitted to the U.S. Treasury as Miscellaneous Receipts. (See discussion of Disposition of Funds Returned from Proprietaries on p. 16.)

E. Treatment of Profits

The CIA General Counsel, in a 6 January 1958 memorandum, ruled that "income of proprietaries, including profits, need not be considered miscellaneous receipts to be covered into the Treasury but may be used for proper corporate or company purposes." This subject was reviewed and the opinion reaffirmed by the General Counsel in July 1965. The policy of retaining profits has continued, although as already noted only a very few of Agency proprietaries have ever been profitable. The CIA's legal basis for retaining profits for the use of the operating corporate entities is discussed below.

Section 104 of the Government Corporations Control Act, 31 U.S.C. 849, provides that Congress shall enact necessary legislation to make available for expenditure such corporate funds or other financial resources or limiting the use thereof as the Congress may determine. It is further provided that "this section shall not be construed as preventing the Government corporations from carrying out and financing their activities as authorized by existing law . . ." The legislative history explaining this section of the act states that "in cases where no other law required a congressional authorization of expenditures,

the corporation, if it had means of financing other than annual appropriations, could continue to operate in the absence of any action by Congress on its budget program." The statute creating a particular Government corporation may provide specifically that the corporation may use its profits in the conduct of its business.

The Government Corporations Control Act certainly did not contemplate Government corporations in the sense that the Agency must have them. Neither is it feasible for Agency proprietaries to be created by act of Congress or overseen precisely as provided for in the normal Government corporation in the Act. Nevertheless, the Agency has felt that the appropriate and reasonable policy would be to treat and control them insofar as possible in accordance with the terms of that law. Such being the case, the Agency believes there is no need to have more restrictive rules applied to its corporations in the use of funds, including profits, than are applied to Government Corporations under the other Act or statutes. Thus, the use by a proprietary of its earnings to carry on its corporate affairs without an offset against Agency appropriations is considered a legitimate practice and does not constitute an illegal augmentation of appropriations.

With rare exception, principally the large air and insurance proprietaries, operating proprietaries have not been self-sustaining from bona fide income. Such income, including profits, as is received is retained by the proprietaries consistent with the usual operating practices of business enterprises.

The use of proprietaries' profits, however, is controlled by annual reviews and audits within the Agency of the total capital,

investment, and profits situations of the corporations in the context of the operational objectives and the cover needs of the corporations. In effect the annual project review is based upon an audit as searching as that required for statutory Government corporations.

F. Disposition of Funds Returned from Proprietaries

Any proprietary with funds excess to its current or foreseeable needs is required to return such funds to the Agency. Also, all funds realized from the liquidation or termination of a proprietary are returned to the Agency except in a limited number of situations when transferred to another proprietary for "similar use." On the basis of an opinion of 3 February 1975 by the CIA General Counsel, the Agency has revised its policy for the treatment of all returns of funds from proprietaries; all such returns are to be remitted to the U.S. Treasury as Miscellaneous Receipts. Prior to this change in policy, returns had been treated as refunds of the previously recorded expenses up to the amount of such expense for a particular proprietary with any excess amounts returned to the Treasury as Miscellaneous Receipts.(Appendix C)

G. Disposal of Proprietaries

Air America, the Agency's largest proprietary, at its peak had total assets of some $50 million and more than 8,000 employees (who accounted for more than 90 percent of the people employed directly by all proprietaries). It is in the process of being liquidated because it is no longer required. The Air America complex included a number of other companies with the Pacific Corporation as the holding company. The general plan for liquidation of Air America is for the Pacific Corporation to sell off Air America, Inc. and Air Asia, Ltd. (the Taipei maintenance operation). A private New York firm (R. Dixon

Speas Company) was engaged to estimate a fair market value for the complex. Although an intensive search for competitive bidders was made, the Agency was unable to find buyers for any of the affiliated companies except the Taipei maintenance facility. The sale of this company as a going concern to the successful bidder was closed on 31 January 1975. The remaining parts of Air America are being liquidated by sale of individual assets upon completion of existing contracts. Funds realized from the sales could be as much as $25 million and will be returned to the Treasury.

Agency financial support for Radio Liberty and Radio Free Europe, both sizeable proprietaries, was terminated in FY 1971 and responsibility for their funding and operation was assumed by the Department of State.

Southern Air Transport was sold on 31 December 1973 because its contingency capability was no longer needed. The Agency realized $6,470,000 from this sale. Cash received was $3,345,000 which included a $1.2 million award in arbitration of a dispute over the proceeds of the sale of an aircraft by Southern Air Transport after the sale of the company by the Agency. The balance was paid by the purchaser to Air America to retire a debt owed by Southern Air Transport. A group of employees of Southern Air Transport filed a civil action disputing the propriety of the sale of the company by the Agency, but the case was dismissed with prejudice on 17 July 1974.

A more detailed list of various disposals of smaller proprietaries and what, if any, relationships remained thereafter between the Agency and any subsequent entity appears <u>infra</u> page 39, Section V.

H. Relations with Tax, Regulatory, and Other Agencies

Management and control of proprietaries often requires "cooperative interface" with outside agencies to gain beneficial working relationships and, as necessary, any appropriate authorizations. These relationships are described below.

For those proprietaries which maintain commercial books and other financial records. U.S. and State tax returns are prepared annually by commercial managers based on the corporation's financial records. For other entities where only internal Agency records are maintained, tax returns are prepared by Agency specialists in a manner to reflect the normal operations of a bona fide commercial business. Close coordination is maintained with the Internal Revenue Service, which is aware of the Agency's use of proprietary commercial entities. In the event an Agency entity is singled out for IRS audit, it has been agreed that the Agency, through the Office of General Counsel, will notify IRS of Agency ownership. The IRS then cancels the audit in order to conserve auditor manpower.

The Air proprietaries necessitated contact with the Civil Aeronautics Board, the Federal Aviation Agency and the National Transportation Safety Board. Specific problems were discussed, usually with the Office of General Counsel of the agency concerned by the CIA General Counsel.

The Air Proprietaries dealt with State Department and the Agency for International Development, generally on a contractor/customer basis, although senior personnel of those agencies were advised by the Agency of its ownership of the companies.

Those proprietaries which engaged in the shipment of weapons or other items on the Munitions Control list required Agency assistance in obtaining the necessary export licenses. The ownership of the companies was discussed with State Department Office of Munitions Control and the Bureau of Alcohol, Tax and Firearms.

The radio proprietaries, while funded by CIA, did receive policy guidance from the Department of State to ensure that their broadcasts were in conformance with U.S. foreign policy.

The Agency has intervened with the Department of Labor on behalf of survivors of employees of the proprietaries in order to assist them in receiving the available benefits under the applicable Workmen's Compensation Acts.

The Agency, on behalf of the proprietaries, interceded with the Defense Department to have the proprietaries' contracts exempt from the Renegotiation Board. There was a normal exemption based on the rules of the Board which was given for contracts performed entirely outside the United States.

CIA requested the Air Force to consider the interest of the Agency in connection with the awarding of commercial contracts to its proprietaries. Initially this was done in the mid-1950's on the basis of a policy decision by the Operations Coordination Board that the air proprietary in the Far East, then operating at a deficit, was an instrument of value to national security. The Agency was able to maintain a standby capability without budget subsidies if awarded enough business to support large commercial aircraft. This applied to the passenger and cargo aircraft.

The U.S. Forest Service was advised of the ownership of a proprietary and asked to award contracts to the proprietary in order to help it develop a commercial posture and permit its aircraft to be associated with that type of flying.

IV. A DESCRIPTION OF THE VARIOUS PROPRIETARIES

The operational needs of the Agency have required it to venture forth into many areas where proprietaries were a perceived necessary vehicle. These areas have included air support, media publications, proprietary management (accounting and management), insurance (personal insurance coverage, annuity coverages, and escrow account maintenance for agent personnel), covert procurement (general merchandise, arms, ammunition and police related equipment), cover support (commercial cover, such as management consultant firms, importing companies, travel agencies, energy research organizations, behavior psychology companies), personnel services (tape transcription, personnel investigations for security clearances and approvals, public accounting firms, electoral and political analysis firm keyed into foreign elections), operational support (purchase of condominiums in foreign countries, sporting goods business in United States with sales in Latin America, various overseas foundations to provide grants, export/import firms, a company which holds a note for certain U.S. Government funds borrowed by a consortium of aluminum companies for the extraction of bauxite in Guinea to insure U.S. control of bauxite extraction activities in Guinea), and various other miscellaneous categories.

The number of employees of proprietaries as of October 30, 1975 was 321. Of this number 78 were U.S. Agency employees, 178 were U.S. proprietary hires, and 65 were foreign proprietary hires. The various types of funding and payrolling mechanisms used by the Agency (Devised Facilities incorporated in the U.S.; Devised Facilities-Notionals which

are not incorporated but are sole proprietorships; and Notionals, which are merely business names, are not formally constituted or registered which do business at the address of an answering service or witting attorney) totaled 326 as of October 31, 1975. There were 31 Devised Facilities, 67 Devised Facilities-Notionals, and 228 Notionals.

There follows a list of some of these proprietaries with brief descriptions of their functions. There are 97 in number. Following that list is a description of the major headquarters-controlled proprietaries provided as of September 24, 1975. In addition, there is included a listing of all proprietaries during the period 1952 through 1974 (total 399) with the highest net equity balance on agency records and the net worth balance as of December 31, 1974. The smallest net worth balance is $400 and the largest is $31,778,000.

The year 1967 was selected to demonstrate the number of employees in use by Agency proprietaries. In that year, the Agency owned approximately 158 proprietaries. These proprietaries employed approximately 14,416 persons. Ninety-two percent of the employees were accounted for by three proprietary complexes as follows:

JBGREED	10,218
TPTONIC	1,800
QRACTIVE	1,300
	13,318

TPTONIC and QRACTIVE (Radio Free Europe and Radio Liberty) were turned over to the Department of State and are now being managed by the Board of International Broadcasters. The JBGREED complex (air support capability in the Far East) is in the process of liquidation and

currently has 63 employees. In addition to the proprietaries mentioned above, the Agency managed 243 funding and payrolling mechanisms which provided payrolling services for 149 employees.

PROPRIETARY LIST

AIR SUPPORT

IUBETON Complex

The below four companies comprise an air support capability for worldwide contingency use. The complex is based in the Southeastern portion of the United States with certain commercial business operations overseas.

1. IUCONTROL

A Florida corporation which acts as the holding company for the principal operating company in the complex (immediately below); assets consist solely of stock in the principal operating company; no employees.

2. IUBERYL

A Florida corporation based in South Florida; a small air service company which can be quickly expanded to meet Agency air support requirements.

3. IUEPOCH

A Florida corporation which operates from an airport in the Southeastern United States; a wholly owned subsidiary of IUBERYL (immediately above) which operates a fixed base aviation facility; provides an alternative air support capability.

4. IUPIECES

A Florida corporation based in Miami which acts as a purchasing agent for aviation supplies for the activities of the complex; can provide the same service for prospective Agency air support activities; is a wholly-owned subsidiary of IUBERYL (above).

SECRET

JBGREED Complex

The below five companies comprised an air support capability in the Far East. All entities are in process of being liquidated or sold.

5. JBCRYING

A Delaware corporation with corporate offices in Washington, D.C., which acts as the holding company for JBCHOKE, JBHEEDFUL, and PROPRIETARY C (see below).

6. JBCHOKE

A Delaware corporation ~~which~~ with corporate offices in Washington, D.C., which has terminated all flying services contracts. The company will be liquidated by sale or disposal of assets.

7. JBHEEDFUL

A Taiwan corporation with corporate offices in Taipei which ceased flying operations in 1968 but has continued to provide ticketing and other services on behalf of other affiliated companies.

8. PROPRIETARY B

A Hong Kong corporation located in Hong Kong which provides computerized accounting services for JBCHOKE.

9. PROPRIETARY C

A Thailand corporation located in Bangkok, Thailand which is the custodian for JBCHOKE files pertaining to Thai employees and contractual services in Thailand; will be dissolved when Thai law no longer requires retention of these records.

Single Entity

10. HBSANDTRAP

A Delaware corporation located at Washington National Airport which has provided secure air support for Agency employees and classified pouches between Headquarters and other Agency facilities in

the United States; the company has accepted commercial charter flights from non-Agency customers for income and cover purposes.

Media Publications

The below six companies comprise a worldwide book distribution and manuscript publishing activity.

11. QRBLOND

A Liberian corporation with a representative (banker) in Brussels which pays book distribution costs; funds are controlled by members of the New York corporation (PDPORTAL/300 - below) and paid through this corporation to avoid some of the problems of funding a domestic company in the total amount required to effect project operations; no employees except for the Brussels representative, who is paid on a fee basis.

12. QRBLUFF

A Liberian corporation which is used as attribution for Agency funding to the above two proprietaries; no employees.

13. PDPORTAL/200

A German non-profit organization, located in Munich, which acts as the home office of its Rome Branch and is also used as the ostensible source of all the Agency funding to other project entities; no employees; maintains a branch, PDPORTAL/500, in Rome, Italy.

14. PDPORTAL/100

A limited partnership located in London, England.

15. PDPORTAL/400

A corporation located in Paris, France.

16. PDPORTAL/300

A New York corporation located in New York City.

Single Entities

17. TOMOSAIC

A Delaware corporation based in London which provided an international news feature service; the project also supported the publication of books of propaganda value; the news feature service has been discontinued and the corporation will soon be dissolved.

18. AELEDGER

A French corporate entity located in Europe which publishes a foreign-language weekly periodical, which is disseminated to recipients in and out of Russia and contains articles on Soviet and Bloc matters including a large amount of material prepared covertly in the USSR by Soviet dissidents; the periodical attempts to encourage and assist activities of moderate segments of Soviet society.

19. AEDYNAMIC

A New York corporation located in New York City which publishes periodicals and selected books for infiltration into the Soviet Union and distribution to travelers and Soviets residing outside the USSR; fosters regional nationalism within the USSR; supports a private organization of regional nationalities; supports the AEDYNAMIC branch office in Munich, Germany.

20. QRMYSTIC

A sole proprietorship located in the Washington metropolitan area owned ostensibly by an Agency employee whose journalistic services are utilized in support of foreign operations.

Proprietary Management

LPPANDA Complex

The below three companies support a one man accounting and management company in Europe which provides services to other proprietary operations.

21. LPREMEDY

A one man accounting and management company located in Europe.

22. LPCLOUD

A dormant company at one time associated with the cover of the individual now covered by LPREMEDY.

23. LPCHAIR/A

A New York company with no employees which serves as a communication channel from Headquarters to LPREMEDY.

Single Entities

24. LPHOCUS

A New York management and accounting company (three employees) which provides accounting and related financial management assistance to other proprietary organizations.

25. LPSUGAR

A Maryland management and accounting company (three employees) which provides accounting and related services to other proprietary organizations.

26. LPBERRY/B

A New York legal and accounting firm (three employees) which provides legal and accounting services to other proprietary organizations.

Insurance

MHMUTUAL Complex

The below 25 proprietaries comprise a clandestine support mechanism which provides personal insurance coverages, annuity coverages, and escrow account maintenance for agent personnel in a manner to preclude attribution to the United

States Government. The complex also underwrites insurance risks of certain proprietary organizations and administers the pension plans of these organizations. In addition, the complex has been used to provide a limited amount of support to other Agency operations -- specifically, the acquisition of operational real estate and as a conduit for the funding of selected foreign covert activities. Twelve full-time employees are involved in the management of the complex, with the assistance of three proprietary management firms. All expenses except for the salaries of Government employees assigned to the complex are paid from earned income. The companies involved are:

27. MHANVIL/A

An attorney at law operating as a sole proprietor in Washington, D.C.; he is the Agency manager of the insurance complex.

28. MHGRET

A Panamanian company which provides ownership for MHCROZE, an investment proprietary, (see below) and owns an apartment in Buenos Aires; no employees.

29. MHCROZE

A Panamanian company which serves as an investment vehicle and a primary mechanism for the management of funds, no employees.

30. MHSLACK

A Delaware corporation which provides payroll cover for project personnel and serves as an investment vehicle for funds; seven employees.

31. MHVODKA

A Bermuda company which is a reinsurance vehicle for all types of casualty and property insurance for other Agency proprietaries and directly issues death and disability, term life, annuity and other coverages for Agency non-staff personnel; no employees.

32. MHDRYAD

A Panamanian company which serves as owner of MHLUMEN and MHSPRAY (see below); no employees.

33. MHLUMEN

A Liberian company which serves as owner of MHFETCH (see below) and as the source of an operational loan; no employees.

34. MHFETCH

A Bahamian company which serves as owner of MHKOALA and MHWHIFF (see below); an investment vehicle and manager of non-staff pension plan; no employees.

35. MHKOALA

A Liberian company currently inactive and slated for dissolution; no employees.

36. MHWHIFF

A Bermuda company which is a reinsurance vehicle for all types of casualty and property insurance for Agency proprietaries and for life and annuity coverages for non-staff personnel; no employees.

37. MHMOLAR

Liechtenstein anstalt which serves as the beneficial owner of MHBOMBE (see below); no employees.

38. MHBOMBE

A Bahamian company which serves as a holding company for MHTWANG and MHONSET (see below) and as an investment vehicle; no employees.

39. MHONSET

A Delaware corporation which serves as an investment vehicle and quarantor of a mortgage on a former Agency activity; no employees.

40. MHTWANG

A Cayman Island corporation which handles certain annuities, escrow, term life insurance, a pension plan and funding of MHPIQUE (see below); no employees.

SECRET

41. MHPIQUE

A Florida company which provides payroll cover for three non-staff personnel who handle the Cuban dependents program payments and correspondence; three employees.

42. MHDELFT

A Swiss company which serves as a holding company for MHHAWSE (see below) and as a standby asset; no employees.

43. MHHAWSE

A channel Island company that serves as a direct underwriter of term life insurance and annuity contracts for non-staff Agency personnel; no employees.

44. MHSEPOY

A Panamanian company that serves as beneficial owner of MHUNDER (see below) and for direct underwriting of term life and annuities for non-staff personnel; no employees.

45. MHUNDER

A Panamanian company which is slated for dissolution; no employees.

46. MHALATE

A Liechtenstein company which owns property in Lusaka; no employees.

47. MHJORUM

A Panamanian company which directly underwrites death and disability, term life and annuities for non-staff personnel, no employees.

48. MHBLARE

A Florida company now in dissolution resulting from abandonment of Agency project; no employees.

NOV 5 1975

CIA

SECRET

SECRET

49. MHRUCHE

A Liechtenstein anstalt which is a general use standby asset; no employees.

50. MHCLUMP

A Liechtenstein anstalt which serves as a standby asset for general reinsurance use; no employees.

51. BGJASMINE

A European insurance and reinsurance company which issued direct death and disability coverage to contractor personnel engaged for a DDS&T project, and reinsured other risks arising out of the project; no employees.

Logistics Support

The below three entities operated by the Office of Logistics provide a covert procurement mechanism for the Agency.

52. KMJAGGERY

A Delaware corporation located in Washington, D.C., which purchases general merchandise in a manner which cannot be traced to the United States Government; total purchases from January to September 1974 were $437,500; no outside commercial business; five employees.

53. TPLENTIC

A Delaware corporation with an address in New York which arranges research and development and production contracts in a manner which cannot be traced to the United States Government; the company has no employees and is managed by Headquarters officials in alias.

ROM

NOV 6 1975

CIA

SECRET

54. Stock Account #3

A Delaware corporation with an address in Baltimore which purchases arms, ammunition, and police related equipment in a manner which cannot be traced to the United States Government; the company has no employees and is managed by Headquarters officials in alias.

Cover Support

WUDIRK Complex

The below five entities located in New York comprise a Foreign Resources Division activity which provides commercial cover for certain personnel assigned to the New York Base of FR Division; no commercial activities are undertaken by the companies in the complex, and all revenue comes from Agency sources; two of the entities are in the process of dissolution, and two recently established entities will replace the ones in dissolution.

55. WUBODKIN

A New York corporation with offices in midtown Manhattan which is styled as a management consulting firm; the entity will be dissolved in the near future as soon as other cover facilities are available for the individuals presently covered by the entity; used by New York Base personnel for employment attribution and office space.

56. WUCURULE

A New York corporation with offices in mid-town Manhattan which is styled as a management consulting firm; the entity will be dissolved in the near future as soon as other cover facilities are available for the individuals presently covered by the entity; used by New York Base personnel for employment attribution and office space.

57. WUXIPHOID

A New York corporation with offices in mid-town Manhattan which is styled as a management consulting firm; the entity will continue to provide cover support to the New York Base; used by New York Base personnel for employment attribution and office space.

FROM

NOV 6 1975

CIA

58. WUBACH

A newly established New York corporation with offices in mid-town Manhattan which is styled as a management consulting firm; was created to replace WUBODKIN and WUCURULE (above); used by New York Base personnel for employment attribution and office space.

59. WUKNOX

A newly established New York corporation with offices in mid-town Manhattan which is styled as a management consulting firm; was created to replace WUBODKIN and WUCURULE (above); used by New York Base personnel for employment attribution and office space.

Single Entities

60. LPPIKE

A New York importing company with a branch office in a Far East country; the branch office provides cover for one Agency employee; no employees in New York.

61. MOKITH

A Thai company located in Bangkok, Thailand, which functions as a travel agency and provides cover for one Agency employee in Bangkok.

62. LKBASE

A Virginia corporation located in Washington, D.C., which, in the past, has provided cover and funding for nonofficial cover officers in the middle east; it is styled as a research organization on energy matters and is now in the process of liquidation.

63. MKDILLY

A Virginia corporation operating out of the residence of its president in Northern Virginia; the company provides cover for one Agency officer who provides behavior psychology assistance to the DDO.

Personnel Services

Single Entities

64. SLAVE

A Delaware corporation having its principal office in Falls Church, Virginia, which provided a centralized facility in the Headquarters area with the capability of fulfilling field and Headquarters requirements for tape transcription and document translation; three employees; steps are now underway to convert two of the employees who were proprietary hires to contract employee status and move the function to Agency controlled buildings.

65. MHBOUND/3

A California corporation, with its headquarters in Los Angeles, which conducts personnel investigations for security clearances/approvals in those cases where no United States Government interest can be disclosed. It also renders security assistance, i.e., badging, counter-audio inspections, etc., to Agency projects in those cases where United States Government involvement cannot be revealed; the company will be dissolved by 30 June 1976.

66. MHCLIMB

Represented as the Washington, D.C. branch office or affiliate of a legitimate New York based public accounting firm, but actually under sole control and administration of the Agency Audit Staff, this facility enables site audits of Agency covert projects by experienced Agency auditors.

67. VWCADENZA

A Maryland company located in Bethesda, which is used as cover for an Agency employee who provides electoral and political analysis on South American and European elections; he also trains Agency personnel in polling techniques and electoral analysis; no outside business.

FROM

NOV 6 1975

CIA

SRET

Operational Support

WUTACTIC Complex

The below 27 companies are managed by the Cover and Commercial Staff to provide operational support mechanisms for DDO foreign operations. Some companies are inactive and held for future use.

68. LPCEMENT

A Liechtenstein company used to purchase a condominum apartment in France for use as a listening post; net assets $84,226; no employees, being terminated in the near future.

69. LPKILT

A Latin American company established to provide cover and funds to an East Asian agent; agent exports goods to Latin America for resale; gross sales last year of $1,000; assets $12,870; one field agent.

70. LPKNIT

A Florida corporation formed to provide cover and source of livelihood to an Agency employee in Latin America; employee opened branch office of this parent company and sells sporting goods; gross sales last year (first year of operation) $3,367; assets $14,125; one employee and wife.

71. LPPURSUIT

A Liberian corporation used to backstop a field agent in the renewal of his visa; assets of $375; no employees.

72. LPCAMEO

A Liberian corporation used as the ostensible employer of two Agency employees in the recruitment of a foreign agent; no assets no real employees.

73. LPMISSIVE

A Liechtenstein anstalt which holds a mortgage on property in Austria used by a field agent; assets of $788; the mortgage is not recorded on the books of the corporation; no employees.

74. LPBANGO

A Liechtenstein foundation used to give ostensible grants-in-aid to field agents as a source of their livelihood; assets of $165; no employees.

75. LPABBEY

A Liechtenstein foundation presently inactive; assets $3,202; no employees.

76. LPKITTY

A Liechtenstein foundation presently inactive; assets $3,205; no employees.

77. LPALONE

A Liechtenstein foundation presently inactive; assets $633; no employees.

78. LPDOUBLE

A Liechtenstein company used as a funding channel for a cover placement, assets $2,853; no employees.

79. LPRAISIN

A Liechtenstein anstalt export/import firm formed to provide additional status and prestige to an employee operating in alias; assets $7,942; no employees.

80. LPBRAID

A Panamanian company used as a note holder in the sale of an Agency proprietary entity; assets $1,818; no employees.

81. LPADVANCE

A Panamanian company currently inactive; assets $3,589; no employees.

SECRET

82. LPGLITTER

A Panamanian company which was used as an investment vehicle for funds reserved for new commercial operations requiring Agency investments; The investment project was terminated and all funds returned to the Agency; the company has no employees.

83. LPLOTUS

A Panamanian company currently inactive; assets of $2,831; no employees.

84. LPVISION

A Panamanian company currently inactive; assets of $2,831; no employees.

85. LPRANGE

A Panamanian company which holds a note for certain United States Government funds borrowed by a consortium of aluminum companies for the extraction of bauxite in Guinea; purpose of United States Govenment involvement was to insure U.S. control of bauxite extraction activities in Guinea; the note, issued in 1961, was in the principal amount of $2,855,000, balance of $1,752,000 has remained uncollected since 1962, when payments stopped, (at the time the Government of Guinea nationalized the extraction effort); aside from the note, the company has no other assets and has no employees.

86. LPSHADE

A Delaware company previously used as a holder of a note on a loan to a field agent; company now inactive; assets of $2,829; no employees.

87. LPMANTLE

A Delaware corporation which is used to collect the proceeds from the sale of Agency proprietary entities and to refund such proceeds to the Agency; at 31 December 1973, total assets $650,220, total liabilities $633,897, total stockholders equity $16,323; no employees.

88. LPEPIC

A Delaware corporation based in New York City with a branch office in the Far East which provides commercial cover to a contract employee in the Far East targeted against foreign intelligence; net assets $27,265; one employee.

89. LPSHORE

A Delaware corporation currently inactive but retained for future use; net assets of $2,023; no employees.

90. LPRERUN

A Delaware company used to provide compensation and tax attribution to an independent contractor, assets of $7,094; no employees.

91. LPGRASS

A Delaware company used as the ostensible investors of funds in LPKILT; assets of $1,826; no employees.

92. LPSHUFFLE

A New York company incorporated but never opened for business; being held in reserve for possible future use; no assets; no employees.

93. LPDAIS

A New York corporation based in New York with a branch office in Europe. Used as the ostensible employer of an Agency employee during his tour in Europe targeted against foreign intelligence; net assets $6,845; one employee.

94. LPDUPE

A Massachusetts company incorporated to provide cover and source of livelihood to an Agency employee on a tour in the Near East; assets of $9,647; one employee.

ROM

NOV 6 1975

CIA

SECRET 16-

Miscellaneous

Single Entities

95. CATAR

A Liechtenstein corporation operated by a lawyer in Europe which has been used as the lessee of apartments of operational interest in two European cities; also used as the ostensible employer of certain Agency employees in the Far East when they operate in alias; no real employees; funds have been passed through the company bank account in amounts necessary to meet lease payments and maintain commercial image; net worth of about $5,000 (represents minimum bank balance); company now in the process of dissolution.

96. LPBYZAS/B

A Swiss entity which holds a current equity interest (30 percent) in a European trucking company; all other owners of the trucking company are unwitting of Agency interest and the Agency has been trying to sell its equity since 1973; both entities provided cover for a career associate for four years; when sale is completed, LPBYZAS/B will be dissolved and proceeds returned to the Agency for credit to Miscellaneous Receipts.

97. LPESTATE

A Liechtenstein anstalt with no employees which owned a house of operational interest in a European city; the house was recently sold and the entity will be dissolved as soon as the proceeds from the sale are received and the company can be liquidated in accordance with the laws of Liechtenstein; liquidating dividends will be returned to the Agency for credit to Miscellaneous Receipts.

SECRET

TAB B

Employees* of Proprietaries as of October 30, 1975

	U.S. Agency Employees	U.S. Prop. Hire	Foreign Prop. Hires	Totals
IUBETON Complex	3	116	1	120
JBGREED Complex	2	31	30	63
HBSANDTRAP	6	0	0	6
PDPORTAL Complex	0	10	9	19
TOMOSAIC	0	0	0	0
AELEDGER	1	0	20	21
AEDYNAMIC	0	7	3	10
QRMYSTIC	1	0	0	1
LPPANDA Complex	1	0	0	1
LPHOCUS	2	1	0	3
LPSUGAR	3	0	0	3
LPBERRY/B	1	2	0	3
MHMUTUAL Complex	8	3	1	12
Logistic Support Complex	5	0	0	5
WUDIRK Complex	23	0	0	23
LPPIKE	1	0	0	1
MOKITH	1	0	0	1
LKBASE	0	0	0	0
MKDILLY	1	0	0	1
SLAVE	5	0	0	5
MHBOUND/3	7	6	0	13
MHCLIMB	3	1	0	4
VWCADENZA	1	1	0	2
LPTACTIC Complex	3	0	1	4
CATAR	0	0	0	0
LPBYZAS/B	0	0	0	0
LPESTATE	0	0	0	0
Totals	78	178	65	321

* No Foreign National Agency employees are presently employed by Agency proprietaries.

TAB C

FUNDING AND PAYROLLING MECHANISMS

1. The various types of Funding and Payrolling Mechanisms used by the Agency are described below:

a. Devised Facilities--Those Agency-owned and managed mechanisms which are incorporated in U.S. jurisdictions (various States) with nominee stockholders and are used to provide nonofficial cover payroll support to Agency assets who do not have to show highly visible cover employment. They are also used for other nonofficial cover support tasks such as funding of proprietary organizations. No books of account are maintained but annual tax returns are prepared by Headquarters specialists in a manner to make it appear that the mechanism is conducting normal commercial business. Since the tax return cannot be substantiated from commercial records, the Internal Revenue Service (IRS) must be notified of Agency interest in the entity in the event of a proposed IRS audit. Management, including direct control of the corporate bank accounts, is effected by specialists at Headquarters. Funds are transferred from Headquarters to the bank account of each entity in amounts and at times necessary to meet funding obligations; otherwise, minimum balances are maintained in the accounts to keep them open.

b. Devised Facilities-Notionals--Those Agency-owned and managed mechanisms similar to Devised Facilities except that the mechanisms are not incorporated; they are sole proprietorships. The same administrative procedures are used as for Devised Facilities.

c. Notionals--Those Agency-owned and managed mechanisms which are merely business names (not formally constituted or registered) which ostensibly do business at the address of an answering service or witting attorney. Operating officials are usually fictitious and management is effected by specialists at Headquarters. These entities are generally used as funding attribution for monies paid to bona fide corporations in reimbursement of cover costs for Agency assets, and they are also used to fund proprietary organizations. The same administrative procedures are used as for Devised Facilities.

2. As of 31 October 1975, the number of mechanisms in each category is as follows:

a. Devised Facilities	31
b. Devised Facilities-Notionals	67
c. Notionals	228
Total	326

NOV 1975

R1779

16

DESCRIPTIONS OF MAJOR HEADQUARTERS-CONTROLLED PROPRIETARIES FOUND ON THE SCHEDULE ATTACHED TO A 24 SEPTEMBER 1975 MEMORANDUM TO THE COMPTROLLER FROM THE OFFICE OF FINANCE

LPBERRY/B - A one man, one secretary accounting and legal firm in New York City which provides services to Agency proprietary clients as well as commercial customers. The majority of the costs of this proprietary are usually subsidized by the Agency, however, during the past 12-month period the proprietary did earn substantial fees from legal clients including a $20,000 fee which was congingent upon the favorable settlement of a civil case.

LPPIKE - A small importing firm in New York City which provides cover for one Agency officer in the Far East. In the past, the company has earned substantial revenue, however, in recent months and for the next year it is expected that the company will be subsidized completely by the Agency.

PDPORTAL - A complex of companies both in the U.S. and abroad which comprise a worldwide book distribution and manuscript publishing activity. Except for $4,000 to $5,000 a year from outside sources, all proprietaries in this complex are subsidized completely by the Agency.

PDLEDGER - A small company in Europe which publishes a weekly periodical and disseminates this and other material to recipients in and out of Russia; the various written materials produced for dissemination by the company contain Soviet dissident literature and other articles to encourage and assist activities of moderate segments of Soviet society. This company receives outside revenue from the sale of its publications and over the past 12 months this revenue contributed to approximately one-half of the costs. The balance was provided by the Agency.

RE FROM

NOV 4 1975

CIA

SECRET

39

PDDYNAMIC	-	A domestic based corporation with a German branch which fosters the aims of a nationalistic group within the USSR and publishes selected books and periodicals for distribution to members of this nationalistic group. The New York and German offices under this project are largely subsidized by the Agency with some revenue to the German office from the sale of publications.
VWCADENZA	-	A one man, one secretary, consulting company which provides Agency officers with training and advice on polling techniques as applicable to foreign operations. This company is wholly subsidized by the Agency.
MHBOUND	-	MHBOUND/3, a security services company which supports Agency programs involving contractor personnel and offers limited services to commercial customers for cover purposes. This company is almost completely subsidized by the Agency.
KMJAGGERY	-	A small purchasing company operated by the Agency, Office of Logistics, which provides covert procurement for that office. This company is wholly subsidized by the Agency.
QRMYSTIC	-	A sole proprietorship in the Washington area ostensibly owned by an Agency employee whose writing and research talents are utilized exclusively by the Agency in support of overseas operations. This company is wholly subsidized by the Agency.
WUDIRK	-	A group of three companies in New York which provide cover for personnel assigned to FR Division's New York Base. The three companies involved are supported wholly by the Agency.
LPHOCUS	-	A two accountant, one secretary firm in New York City which provides accounting services for Agency proprietary organizations. This company is supported almost exclusively by the Agency.

LPBYZAS/3 - A European company with no employees which holds the Agency's interest in another European company which was used in the past to provide cover for one Agency employee. This company is being retained solely for the purpose of holding an Agency investment. Until this investment is sold, the expenses incident to the operation of the company will be wholly subsidized by the Agency.

LPPANDA - One company in New York without employees and a one accountant, part-time secretary firm in Europe which provides accounting support to Agency proprietary organizations. This company is almost exclusively subsidized by the Agency.

MHMUTUAL - This is the Agency insurance complex which, through interest and dividends earned on its investment portfolio, pays for all Project expenses except for funds provided by the Agency to meet the salary costs of staff and contract employees in the complex.

LPSUGAR - A two accountant, one secretary firm in the Washington area which provides accounting services to other Agency proprietary organizations. This company is almost completely subsidized by the Agency.

SECRET

LISTING OF PROPRIETARIES DURING THE PERIOD 1952 THROUGH 1974 (Total 399)

PROJECT/ ENTITY	HIGHEST NET EQUITY BALANCE ON AGENCY RECORDS 1952-1974	NET WORTH BALANCE 31 DEC 74
ABUNA (Same as JBCASHBOX)	$ 98,000	$
AEEGGHEAD	65,000	
AEMARSH	1,414	
AEMIRROR	42,000	
AEPOKER	135,900	
[redacted]		
AEWILDFIRE	37,000	
AESILVER/D	60,000	
AKAROA	147,000	
AMIDEA	275,000	
BEDEVIL	214,000	
BEHOVE	141,000	
BE[illegible]FUL	9,200	
BEV[illegible]ID	291,000	
BGJAGUAR	59,400	84,400
BGMARQUE	3,500,000	
BGSPEED	2,200	
BGTENTS	13,500	
BGTHANKS	88,200	
CABANA	17,000	
CALANCET	29,000	
CAPOX	64,800	
DEINDEED	2,829,000	
DEWARK	333,000	
DTCRAZE	85,000	
DTLAMPREY	264,500	
DTLIQUOR	4,600	
DTPHENYL	189,500	
DTPIGGLE	38,500	
DTPILLAR	7,123,000	
DTTEEPEE	117,400	
DUPLICITY/1	39,000	

PROJECT/ ENTITY	HIGHEST NET EQUITY BALANCE ON AGENCY RECORDS 1952-1974	NET WORTH BALANCE 31 DEC 74
	$	$
ENDOMORPH		
ENGAGE	202,000	5,300(a)
FELIX	6,200	
FJCITIES	33,000	
FJREFLECT	7,959,000	
FJHOLIDAY	77,464	
FJSTRICT	304,000	
FUARROW	29,000	
FURIOSO/H	22,000	
FUSEE	25,000	
GINSENG/G (was GIMMICK)	31,000	
HACKMORE	600	
HALARC	9,600	
HBDERRICK (was WU) (same as		
HBCLUBHOUSE OILSTONE)	917,543	
HBSANDTRAP	1,103,000	
HREPITOME	546,200	
H[illegible]CKORY	142,500	
HBQUAIL	2,100	
Housing Fund ISOLATION	16,600	
HTB ALARD	14,800	
HTGARLIC	203,300	
HTNAMABLE	2,066,000	
HTPENULT	7,000	
ICIRON	8,000	
IUAIREDALE	89,000	
IUQUEST		
IUABATE	3,484,000	3,484,000(a)
IUPAGAN	3,332,000	880,000(a)
IUPROTON (*)	1,830,000	7,220(a)
JBFOLDAGE	43,000	
JBGREED	34,110,000	31,778,000(a)
LPCRYING		
JBCHOKE		
JBARGON		

(*) See attached schedule for non-government investments.
(a) In process of liquidation

REC[illegible] FROM
NOV 4 1975
CIA

PROJECT/ ENTITY	HIGHEST NET EQUITY BALANCE ON AGENCY RECORDS 1952-1974	NET WORTH BALANCE 31 DEC 74
JBGREED (continued)	$	$
JBHEEDFUL		
PROP B		
PROP C		
JBOPOSONIC	3,500	
JBWHIST	205,000	
JMATE		
JMDUST	512,000	
JMHOPE	345,000	
JMPOPLAR	61,400	
KMHELMSMAN	19,400	
KMARDISH	8,200	
KMCARDUEL	20,000	
KMCASADE	49,000	
KMJAGUARO	1,088,000	
KMFERRY	4,000	
KMJAGGERY	294,700	
MHOLENT	11,000	
S[illegible] STOCK ACCT. #2	4,105,000	
Sr. STOCK ACCT. #3	50,000	
TPLENITIC	153,500	
KMOCHRIOD	50,500	
KMPRICE	141,000	
KMSMORCH	8,300	
LADYCHAPEL	223,000	
LCFURTHER	31,800	
LCKNIFE	335,300	
LCPEDANT	59,800	
LCROPES	311,000	
LFUPRISE		
MIASTOR	29,000	
LILISP/G	121,700	
LIMERRY	129,000	
LPBERRY (was BGLEADWAY)	41,600	
LPBERRY/A	65,000	
LPBERRY/B	52,000	53,200
LPBYZAS/A	67,000	340(a)
LPBYZAS/B	357,000	357,000

(a) In process of liquidation.

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NOV 4 1975
CIA

PROJECT/ ENTITY	HIGHEST NET EQUITY BALANCE ON AGENCY RECORDS 1952-1974	NET WORTH BALANCE 31 DEC 74
LPCAPTAIN	$ 20,000	$
LPCANAL	34,800	2,000(a)
LPDICTUM(was ZRSALTY,(same as WUBRINY) ZRSALTY)	500,000	
LPDICTUM/F	931,900	
LPESTATE	87,000	84,400
LPSPICE (*)	206,000	10,500(a)
LPDICTUM/P	75,000	
LPSALINE (*)	1,597,000	
LPETHNIC(same as WUAMICE)		
LPCYHAMMER	800	
LPHALTER	67,000	
MODAISY	5,400	
LPTOTEM	242,000	81,200(a)
LPFUNNEL	1,500	
LPGAMP	27,000	
LPGLOBE	29,000	
LPHOCUS(same as WUHOCUS)	88,000	35,700
LPJACK (*)	49,000	54,400(a)
LPMINERAL		
L[illegible]AIL	52,000	
L[illegible]CHICKEN	13,000	
LPMINOR		
LPMINOR/1	523,000	
LPMINOR/G	91,000	
LPMETAL	166,000	47,800(a)
PULSE	9,000	
WUHALIBUT	311,100	
LPPANDA(same as ZRBADGE)		
CHAIR A(same as WUPSYCHE/	77,500	1,900
CHAIR B WUCHAIR/A & WUCHAIR/B)	7,000	
LPCLOUD(same as WUCLOUD)	5,900	
LPMET (*)	16,200	16,200
LPREMEDY	34,000	27,400
LPRECLAIM		
LPPITCH	58,000	
LPROE/		
LPPIKE	73,700	56,200
LPSIPHON	12,500	
LPSUGAR	55,000	35,600
LPTACTIC		
LPABBEY	3,500	4,300
LPACROSS	1,700	

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(*) See attached schedule
(a) In process of liquidation

PROJECT/ ENTITY	HIGHEST NET EQUITY BALANCE ON AGENCY RECORDS 1952-1974	NET WORTH BALANCE 31 DEC 74
LPTACITC (continued)	$	$
LPABOUT	1,000	
LPACTION	4,300	
LPADVANCE	20,000	3,600
LPALONE	6,000	400
LPASSIST	2,500	
LPBAIL	11,400	
LPBANJO	1,900	1,200
LPBEAVER	2,200	
LPBRAID	2,200	1,800
LPBRICK	4,200	
LPCAMEO	2,000	
LPCAREFREE	16,000	
LPCEMENT	64,000	86,200
LPCHANNEL	500	
LPCHAOS	2,500	
LPDAIS	31,000	20,500
LPDARE	21,000	
LPDECOR	98,700	
LPDOLLOP	3,000	
LPDOUBLE	4,700	2,800
LPDRAGUN	7,000	
LPDUPE	19,000	3,600
LPELECT	1,300	
LPEPIC	49,000	6,600
LPFINAL	1,100	
LPFLASH	101,900	
LPGAMP	15,400	
LPGRASS	2,000	2,400
LPGLITTER (*)	1,418,500	132,000
LPIMPORT	1,100	
LPKAYO	700	
LPKILT	10,600	7,800
LPKITTY	7,000	2,500
LPKIVA	6,000	
LPKNIT	12,200	14,800
LPLAZY	55,000	
LPLOTUS	3,700	2,400
LPMANTLE (*)	591,000	37,800
LPMASSIVE	2,400	1,800
LPORDER	68,500	
WUOUTDONE	15,000	
LPOXAZOLE	5,100	

(*) See attached schedule.

...D FROM
NOV 4 1975
CIA

PROJECT/ ENTITY	HIGHEST NET EQUITY BALANCE ON AGENCY RECORDS 1952-1974	NET WORTH BALANCE 31 DEC 74
LPTACTIC (continued)		
LPPITCH	28,200	
LPPURSUIT	2,100	2,500
LPRAISON	8,000	5,900
LPRANGE	750,000	14,000
LPRERUN	5,000	5,900
LPRIVER	4,000	
LPROCKY	1,100	
WUSENOR	2,700	
LPSERVICE	4,400	
LPSHADE	47,000	2,400
LPSHOFFLE	60	
LPSHORE	6,700	1,900
LPSOLO	398,000	1,800
LPSUMMIT	5,500	
LPVISION	3,800	2,800
LPWAMPUM	40,000	
LPWEARY	4,400	
LPWHISPER(same as LPCAPTAIN/LPWHISPER	9,900	
LPL TY/1	500	
LPWANDER	5,000	
LUMINANT	12,800	
MENNONITE	1,200	
MHAMISH	38,000	
MHANVIL/A	28,000	
MHANVIL/B	2,700	
MHANVIL/B	3,300	
MHANVIL/F	2,400	
MHANVIL/G	2,000	
MHBOUND/1 (same as ZRLINEN)	136,900	
MHBOUND/2	28,000	
MHBOUND/3	351,600	494,400
MHCLIMB	46,000	20,000
MHMUTUAL		
MHALATE (*)	165,900	103,600
MHBOMBE (*)	2,251,000	873,335
WUCAREFUL (*)	39,900	
WUCHILI (*)	80,000	
MHCLUMP (*)	76,500	81,400
MHCROZE (*)	2,026,600	1,605,200
MHDELFT (*)	9,400	9,300
MHDRYAD (*)	62,000	46,300

(*) See attached schedule

PROJECT/ ENTITY	HIGHEST NET EQUITY BALANCE ON AGENCY RECORDS 1952-1974	NET WORTH BALANCE 31 DEC 74
MHMUTUAL (continued)		
MHEGRET (*)	$ 35,000	$ 33,800
WUFACET (*)	1,128,000	
MHFETCH (*)	1,261,000	(363,500)
MHHAWSE (*)	48,600	54,600
MHJORUM (*)	115,000	141,500
MHKEVEL (*)	357,000	
MHKOALA (*)	250,000	211,200
MHLIBERTY (*)	4,400	
MHLITRE (*)	1,600	
MHLUMEN (*)	59,000	35,500
MHMATTE (*)	49,000	
MHMOLAR (*)	850	550
MHNAVAL (*)	26,800	
MHONSET (*)	126,000	199,000
MHPIQUE (*)	28,500	15,900
WUPRUDENT (*)	1,025,000	
WUSAFETY (*)	412,799	
MHSEPOY (*)	18,000	(6,100)
MHSLACK (*)	691,500	574,800
TWANG (*)	638,900	648,500
UNDER (*)	33,500	(590)
MHVODKA (*)	7,053,500	8,230,000
MHWHIFF (*)	8,385,000	6,361,000
MHNERVE		
MHFUGUE	325,500	
MHSHANK	244,000	17,600(a)/(b)
MIASTOR	34,700	
MICLINIC	2,500	
MIPACT		
MIHOLDING	21,400	
MIPUSHER	37,000	
MKCOTTON	459,000	
MKCRUSH		
MKKILLY	35,500	6,000
MKPENNY (same as MKPENNY)	366,000	82,000(a)
MOKITH	20,200	20,300
MOMARRON	51,700	
MONITION	52,000	

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NOV 4 1975
CIA

(*) See attached schedule. (a) In process of liquidation.
(b) Liquidation completed in March 1975.

PROJECT/ ENTITY	HIGHEST NET EQUITY BALANCE ON AGENCY RECORDS 1952-1974	NET WORTH BALANCE 31 DEC 74
NOVEL	$ 51,200	$
NTEICACER	80,768	
OBLIVIOUS	14,600	
OKMAJOR	411,000	
OKSALE	46,600	
OQKADIAK	92,800	
OQKAIL	170,150	
PAFANFARE(same as FANFARE)	30,300	
PARABASIS	39,000	
PAWALRUS (was WU)	92,800	
PBGREGALE	47,800	
PBTEMPLE	5,000	
PDBASIC	1,053,500	465,800
PDBASIC/200		
PDBASIC/100		
PDBASIC/400		
PDBASIC/300		
PE[illegible]CID	13,000	
PO[illegible]S	25,000	
PODEARLY	32,800	
POVARSITY		
POSPOKE(same as POVARSITY)	31,900	18,000(a)
PBPOUTER	36,700	
PSLAWFUL	11,000	
QKACTIVE	5,500,000	
QKBOTTOM	4,179	
QKFEARFUL	236,900	
QKHUMMER	5,000	
QKOPERA	1,605,400	
QKSHOGUN	21,000	
QRBASTE	533,000	389,400
QRBLAZE		
QRBLOND		
QRBLUFF		
QRBEND	220,000	
QRBIBB	102,500	
QRBUZZ	12,900	
QRDYNAMIC(same as AEDYNAMIC)	151,500	
QRTENURE	89,200	
QRTERRACE	40,700	
QRGLAD	16,700	

(*) See attached schedule.

29

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NOV 4 1975
CIA

PROJECT/ ENTITY	HIGHEST NET EQUITY BALANCE ON AGENCY RECORDS 1952-1974	NET WORTH BALANCE 31 DEC 74
QRLEDGER	$ 165,500	$ 91,400
QRMASTER	538,600	
QRMOSAIC		
QRHAWKBIT	106,000	94,500(a)
QRMYSTIC		
QRCYNIC	9,200	2,700
QRTRIG	100	
QRTROW (*)	775,700	
RIPCORD	200,000	
RIPSNOTER	457,300	
ROCKOIL	3,879,000	
RONDURE	29,500	
SEASONAL	39,900	
SERING	10,500	
SGSUMMON	62,100	
SILVER/A	1,250	
SIPUZZLE	32,000	
SL.	35,000	4,900
SOPRANO	16,000	
SORTIE	16,000	
STFANWEED	28,000	
STSKI	11,600	
TENACIOUS	21,000	
TETARCH	243,800	
TGVIVID	23,700	
THADMIRE	42,000	
THOPUS	25,000	
TPFOCUS	1,764,000	
TPFOUMART	97,500	
TPGLARE	525,000	
TPGULLET	70,000	
TPHERSEY	326,700	
TPMANJACK	62,600	
TPPELLENT	635,000	
TPSAUCER	210,000	
TPTONIC(same as FJINDULGE)	34,260,000	
TURBINE	17,000	
TUXEDO	26,000	

(a) In process of liquidation.

PROJECT/ EQUITY	HIGHEST NET EQUITY BALANCE ON AGENCY RECORDS 1952-1974	NET WORTH BALANCE 31 DEC 74
UNAU	$ 6,000	$
UNTWIG	1,200	
UT-00-67-61	69,600	
VWCADENZA	12,200	2,600
WSFLUFFER	291,000	
WSPELICAN	34,900	
WSREVOLT	14,900	
WSWATERSOAK	6,000	
WSWIDDER	32,700	
WUADIOS		
WUTABOO	243,400	
WUAMPLE		
WUCOTTON	27,000	
WUATLAS		
WUPESKY	192,000	
WUAVON	546,600	
WUE ON		
IUBERYL	723,700	
IUCONTROL	70,000	1,700
IUEPOCH	72,200	72,200
IUPICES	28,000	28,000
LOBSTER	53,000	
WUSETTLE	11,200	
WUBEVY (same as ZRGUIDE)	262,800	
WUCLOAK (same as ZRCLOAK)		
WUABOUT	8,000	
WUACROSS	1,437	
WUDUSTER	100,000	
WUHARPY	210,000	
WUHUMID(was WUSHINE)	815,700	(same as WUSHINE/WUHUMID)
WUMANTLE	687,000	
WUOCEAN	8,200	
WUSEASIDE(same as WUSHINE/WUSEASIDE)	180,000	
WUSNAPPY	1,100	
WUWAMPUM(same as WUEMBARK/ WUWAMPUM)	1,315,000	
WUDIRK		
WUBODKIN	102,500	50,100(a)
WUCRULE(same as WUDIRK/WUSTILETTO)	91,000	112,500(a)
WUXIPHOID	41,300	41,300

(a) In process of liquidation.

FROM
NOV 4 1975
CIA

PROJECT/ EQUITY	HIGHEST NET EQUITY BALANCE ON AGENCY RECORDS 1952-1974	NET WORTH BALANCE 31 DEC 74
WUEMBARK		
WUHALFLIN	$ 250,000	$
WUENTREE	8,500	
WUMOREL	25,500	
WUFILET(same as PBLANGUID)	1,537,000	
WUFLOWER		
WUPROOF	48,000	
WUSWAMP	62,600	
WUGAZELLE		
WUBLOWGUN	365,700	
WUGIRAFFE	380,700	
WUZEBU	252,900	
WUHELPFUL	16,600	
WUMUG	53,400	
WUPADDY		
WUACROSS	12,000	
WUORDER	450	
WUTROUBLE	396,000	
WUPANEL		
WUCORAL	556,900	
WUPEACE	351,700	
WUPIGMY		
WUSNAPPY	375,000	
WUPILOT		
WUTWINE	150,400	
WURABBIT		
WUDOLPHIN	44,000	
WUSAUTE	77,000	
WUSAXA	983,000	
WUACUTE	15,500	
WUSHINE(same as ZRSHINE)		
WUCOMET	1,400,000	
WUSHINE	1,264,000	
WUINVEST	325,000	
WUNOTICE	149,000	
WUPUMA	(81,000)	
WUREVEL	261,000	
WUSOLID (same as ZRSOLID)		
WUTOPSY	1,972,000	
WUTRADE	460,000	
WUSTAKE	387,800	
WUSUNTAN		
WUFLAME	44,000	

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NOV 4 1975
CIA

26

PROJECT/ ENTITY	HIGHEST NET EQUITY BALANCE ON AGENCY RECORDS 1952-1974	NET WORTH BALANCE 31 DEC 74
WUVENTURE		
LPARCH (same as LPARCH)	$ 69,000	$
WUABLE	209,000	
WUBAKER	3,000	
YJPASTIES	2,300	2,300(a)
YOBLADE	636,000	
YODOOR	285,000	
YOENTITY	82,000	
YOTART	755,000	
YOYARD	285,700	
YQFLUENT	356,000	
YQFLUX	33,000	
ZRBENCH	118,000	
ZRCREST		
ZRAVAST	72,000	
LIFF	4,277,000	
ZRDAMSEL	100,000	
ZRDRIVE	57,500	
ZRDROVE	211,000	
ZRMORBID		
MORGLAY	12,000	
ZROCCUR	59,000	
ZRTINDER		
ARCORONA	845,000	

THE FOLLOWING ARE ON CCS NON OP LIST
(NOT INCLUDED IN ABOVE "OF" LISTING)

CATAR
LKBASE
MHMUTUAL
MHBLARE
MHRUCHE
MHSPRAY
PROPRIETARY D
SLOGAN

These proprietaries are not on Headquarters, Office of Finance records; hence no net worth figure was presented. CCS estimates that no one of these companies had a net worth of over $50,000 during their existance.

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NOV 4 1975
CIA

(a) In process of liquidation.

V. THE DISPOSAL OF AGENCY PROPRIETARIES

a) An Overview

The Agency has emphasized the degree to which the extensive proprietary system it has maintained in the past has been disposed of in recent years. Indeed, according to the current Chief of the Cover and Commercial Staff, at least in so far as large proprietaries are concerned, "because of multitudinous reasons they will be viewed as the solution of last resort."* Size was a problem and made it "inevitable that cover would not last." Moreover, there simply is not a need, according to the Agency, for the kind of capabilities supplied by an Air America either now or in the foreseeable future. In this regard, the Agency has indicated that no "real proprietaries" are in planning because there are no such operational requirements before the Cover and Commercial Staff (hereafter "CCS"). But the Committee has learned from its study that the Agency retains the

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* As William E. Nelson, Deputy Director of Operations, noted recently to the Rockefeller Commission:

> I think by and large that the day of the big proprietary is over. We have attempted over the past few years to try to squeeze down on those kinds of proprietaries and I think we have really gone now to a fairly small number, and a fairly tightly controlled group of proprietaries who are doing legitimate operational jobs, particularly in the media field.
>
> Our experience with proprietaries in the past has been if left by themselves, they tend to absorb larger and larger amounts of government money and are not particularly for a business. They are not very viable in the business sense and quickly become suspect as not having any commercial validity. And we have, I think in the past ten years, we have in this past ten years gotten rid of an enormous number of proprietaries in this field. I don't foresee us getting in the immediate future into any expansion of that proprietary record. I think we are about right in terms of where we are now.

capability "in being" to create even large proprietaries.* Moreover, numerous "shelf" corporations are kept available to provide cover. These latter entities are generally only of the notional variety and pose no threat either competitively or in terms of domestic activity beyond the Agency's charter. Nonetheless, the Agency has emphasized the need to retain this general vehicle for at least one purpose: to retain assets. The CCS has indicated that a method is needed to keep "good men" who are loyal, but who need continuing work in both their ordinary and also somewhat byzantine fields. Consequently, proprietaries offer a viable alternative to solve this dilemma of maintaining assets.

As a result of this, the Committee studied which proprietaries had been sold or otherwise disposed of during the period from 1965 to 1975. It sought to find out which of those proprietaries so disposed of in the last ten years maintained a significant relationship with the Agency by contract or informal understanding for any purpose. More specifically, the Committee sought answers to the following questions:

(1) How many proprietaries, by type or function, have been dissolved or sold as a going enterprise or otherwise disposed of by the Agency?

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* Mr. Nelson closed his recent testimony with a caveat:

> I can visualize, however, depending on what happens to the Agency in the future, the possibility that we might want to use more proprietaries, particularly in the field of cover if this gets terribly tight or terribly difficult. But the average operational purpose, except for some of these media operations, all we need is cover and I think that most of the proprietaries that we have fall into that category.

(2) How many proprietaries have been sold, or their assets sold, to persons, or a group including persons, who had previously served as directors, officers or employees of the proprietaries?

(3) In how many instances were proprietaries sold pursuant to a written agreement, or an unwritten agreement or understanding, that the purchased proprietary, any successor entity or the parties purchasing the proprietary's assets would provide the Agency with goods, services or other assistance? In each case, indicate the nature of the business involved, whether the agreement was written or, if unwritten, the way it is reflected in Agency files, and the amounts of any specific business volume, retainers or financial support agreed to in connection with the proprietary's transfer. This request covers both firm contracts for the provision of goods and services and general agreements that the parties acquiring the proprietary or its assets would provide them, at the Agency's option, if requested to do so.

(4) In how many instances did the parties acquiring the proprietary in fact subsequently provide goods, services or other assistance to the Agency, whether or not there was a written or informal agreement of such a relationship at the time the proprietary or its assets were acquired from the Agency? Indicate for each instance the nature of the business, the dollar amounts of the transactions involved and the period of years during which they occurred.

Our study revealed that during the indicated period 209 proprietaries were dissolved, sold or otherwise disposed of, thus substantiating the Agency's claim that it had moved decisively to extricate itself from this area of activity.* But in a very real sense it is nearly impossible to evaluate whether a "link" still exists between the Agency and a former asset related to a proprietary because

---

* The Agency's Office of Finance originally compiled a list of 305 cryptonyms of "entities" which were dropped from Office of Finance records at Headquarters during the period 1965-1975. Nineteen (19) other entities were added from other Agency divisions. Later this list was reconciled with other Agency records to eliminate cryptonym changes and other administrative actions not related to the actual disposal of a proprietary organization. Ultimately, these administrative "eliminations" totaled 115.

circumstances can be conceived of whereby even though formal and informal Agency ties are discontinued, social and other ties remain. The impact of such liaisons is difficult to assess. The following entities were dissolved during the referenced period:

TAB A

ENTITIES DISSOLVED

AIR SUPPORT

WUSOLID/WUTRADE
WUSOLID/WUTOPSY
WUDERRICK/WUCLUBHOUSE
WUCLOAK/WUOCEAN
WUCLOAK/WUSEASIDE
WUCLOAK/WUSNAPPY
IUQUEST/IUPROTON
WUBETON/WUGLOBAL
WUBETON/WUAISLE
WUSHINE/WUINVEST
WUSHINE/WUREBEL
WUGAZELLE/WUEASEL
WUGAZELLE/WUGIRAFFE
WUPADDY/WUTROUBLE

MARITIME SUPPORT

YOENTITY/YODOOR
YOENTITY/YOMONEY
YOTART
IUMUG
IUHISTEP/IULAPEL
IUHISTEP/IULATCH

OPERATIONAL SUPPORT

LPTACTIC/LPDECOR
WUTACTIC/WUDARE
LPTACTIC/LPDRAGON
LPTACTIC/WUELECT
LPTACTIC/LPFINAL
WUTACTIC/WUFLOOD
WUTACTIC/WUGAMP
LPTACTIC/LPHUMID
WUTACTIC/WUIMPORT
WUTACTIC/WUKIWA
WUTACTIC/NERVE
LPTACTIC/LPPITCH
WUTACTIC/WUROCKY
WUTACTIC/WUSUMMIT
WUTACTIC/LPWAMPUM
LPTACTIC/LPWHISPER
LPTACTIC/LPORDER

15

TAB A
Page 2

(OPERATIONAL SUPPORT - Cont'd)

WUTACTIC/WUABOUT
LPTACTIC/LPACROSS
WUTACTIC/WUBAIL
LPTACTIC/LPCAREFREE
WUTACTIC/WUCHAOS

COVER SUPPORT

STLARGO
STMOD
STLAD
STUPLIFT/STKNAP
STUPLIFT/STPACER
MIPACT/MIHOLDING
HALARC
MIPACT/MOPUSHER
CYTABARD
WUDIRK/WUCURULE
WUDIRK/WUBODKIN
WUENTREE/WUMOREL
WUPANEL/WUCORAL
WUPILOT/WUTWINE
LPBYZAS/A
WUBRINY/WUTROCHUS
LPDICTUM/F
LPDICTUM/P
LPMINERAL/LPCHICKEN
LPARCH/LPDUCAT
WUATLAS/GIBLUFF —

ACCOUNTING & MANAGEMENT

QUBUZZ
MHAMISH
LPPANDA/LPCHAIR/B
LPBERRY/A
WUSUNTAN/WUFLAME
WUSUGAR/B

INSURANCE

MHANVIL/B
MHANVIL/D
MHANVIL/F
MHSPRAY
MHKEVEL
MHNAVAL

14

SECRET

TAB A
Page 3

COVERT PROCUREMENT

WUMINOR/I
WUMINOR/WUHALIBUT
LPMINOR/LPMETAL
WUMINOR/PULSE
IUAIREDALE/IUOASIS

FOUNDATION OR INSTITUTE

AEWILDFIRE
LPUNITY/1

MEDIA

UOACORN/VOACTOR
FUSEE
YOYARD
TOMOSAIC/TOHAWKBIT

COMMUNITY DEVELOPMENT

WUETHNIC/MODAISY
WUETHNIC/LPHALTER
WUETHNIC/LPCYHAMMER
WUETHNIC/LPTOTEM

PERSONAL SERVICES

MKCRUSH/MKPENNY
MKCRUSH/MKCOTTON
BEUSEFUL
BGJAGUAR
ENDOMORPH/ENGAGE

INVESTMENT

LPDICTUM/K
LPDICTUM/LPSPICE
LPDICTUM/WUSALINE

RESEARCH & DEVELOPMENT

MHSHANK

SECRET

12

TAB A

ENTITIES DISSOLVED

AIR SUPPORT

JBGREED/JBCRYING (In Liquidation)
JBGREED/QKHEAVERLY (In Liquidation)
JBGREED/QKHEEDFUL (In Liquidation)
JBGREED/JBCHOKE (In Liquidation)
ZRBENCH
WUBETON/ WULOBSTER

MARITIME SUPPORT

YOBLADE
AMCRAFT
AMSALLY

MEDIA AND/OR PUBLICATIONS

ESMIDWAY
AMIDEA
AMWIDE (SLOGAN)
AMRAPT
WURABBIT

INSTITUTE OR FOUNDATION

LPWANDER/1
LPWANDER/2
LPWANDER/3
LPWANDER/4
JMCLIPPER
QKBOTTOM
QRBIBB
PBGREGALE
QRTRIG

COVER SUPPORT

JMDUSK
FUARROW
YQFLUX
KGHELMSMAN
ECIRON
GINSENG/G

SECRET

TAB A

ENTITIES DISSOLVED (Continued)

OPERATIONAL SUPPORT

LPGLOBE/WASH
SLIGO
SLAPJACK

LOGISTICS SUPPORT

STOCK ACCOUNT #2
KMFERRY
KMKANGANI
MHOLENT
OPSOMIC

MANAGEMENT & ACCOUNTING

LPPANDA/LPCLOUD

INVESTMENT

WUVENTURE/WUABLE
WUVENTURE/WUBAKER

COMMUNITY DEVELOPMENT

WUAMICE

SECURITY SERVICES

MHBOUND/1
MHBOUND/2

SECRET

The following entities were sold during the referenced period:

TAB B

ENTITIES SOLD

AIR SUPPORT

WUSHINE/WUCOMET
WUSHINE/WUELBOW
WUSHINE/WUNOTICE
WUSHINE/WUPUMA
WUGAZELLE/WUBLOWGUN
WUGAZELLE/WUZEBU
ZRCREST/ZRAVAST
ZRCREST/ZRCLIFF
WUCLOAK/WUDUSTER
WUCLOAK/WUHARPY
WUCLOAK/WUVITAL
* IUQUEST/IUABATE
* IUQUEST/IUPAGAN
WUSAXA/WUACUTE

TRAVEL BUSINESS

WUBEVY

COVER SUPPORT

POEARLY
CALANCET
STFANWEED/STDOLLAR
STMYSTIC
MIHELEN
MIPACT/MICOUNCIL

INSURANCE

MHTHROW
MHMATTE
MHIRONY

* Substantial Assets Sold; Entities Dissolved

SECRET

TAB B

ENTITIES SOLD

AIR SUPPORT

JBGREED/JBARGON

FOUNDATION OR INSTITUTE

DEINDEED/IUINHAUL

TRAVEL SERVICE

LPJACK

LOW COST HOUSING

WUFLOWER/WUSWAMP

RESEARCH & DEVELOPMENT

HTNAMABLE

SECRET

The following entities were "otherwise disposed of" during the referenced period:

TAB C

ENTITIES OTHERWISE DISPOSED OF

AIR SUPPORT

WUEMBARK/WUHALFLIN
WUSTAKE/WUHOBBY
WUSAXA/WUBLUSEE
MOMARRON
WULAZY

COVER SUPPORT

YJPASTIS

FOUNDATIONS OR INSTITUTES

QRBEND
ZROCCUR/ZRMIDDY
QRSENSE/KMOCHRIOD
AESILVER

MEDIA

PAWALRUS
POVARSITY
QRGLAD
AEEGGHEAD

ACCOUNTING & MANAGEMENT

LPCAPTAIN/LPCANAL

OPERATIONAL SUPPORT

LADYCHAPEL
WUTACTIC/WUDOLLOP

9

SECRET

TAB C

ENTITIES OTHERWISE DISPOSED OF

MEDIA AND/OR PUBLICATION

LILISP/G
AMHIM
QKACTIVE
QRMASTER
TPTONIC
TPTONIC/FJINDULGE
TPTONIC/ZRNACARAT

FOUNDATION OR INSTITUTE

ZRCANNY
DTHABEAS
DTEMBARGO
ZRTINDER
QRTROW
PAFANFARE
QKFEARFUL
WSFLUFFER
DTPILLER
DTLAMPREY
QKOPERA/DTGODOWN

COVER SUPPORT

QRMUGWUMP

TRAVEL SERVICE

TGVIVID

OPERATIONAL SUPPORT

AMOT

There follows a description of the disposition of entities sold or otherwise disposed of during the referenced period. Twenty-nine (29) of the entities were sold or given to witting individuals (former officers, employees, managers, contractors, etc.) Five (5) were sold or given to witting individuals who had no formal relationship with the proprietary. Ten (10) proprietaries continued to provide goods or services to the Agency after the disposal. Thirty-four (34) proprietaries did not continue to provide goods or services to the Agency after disposal. In nine (9) instances the provision or offer to provide goods or services were formal or informal conditions of the sale or gift. In thirty-seven (37) instances this was not the case. Six (6) proprietaries were sold to unwitting individuals or organizations and thus no provision for services or goods was indicated. Several miscellaneous dispositions developed which did not fit neatly into any of the above categories. For example, there was one merger of an Agency proprietary with another Agency proprietary. In two instances the Agency retained a non-proprietary relationship with a former employee. On two occasions the Agency turned over proprietaries to other government departments and on one occasion it sold a proprietary to another government department. There were several instances where the Agency gave the assets of a proprietary after liquidation (books, materials, etc.) to previously uncompensated participants in the various ventures. On occasion, the corporate shells were given to attorneys in lieu of fees for dissolution. Some participants were permitted to retain proceeds of sales in order to continue the original effort of the particular proprietary. And

finally, assets were sometimes given to other proprietaries but without the benefit of a merger.

TAB D

DISPOSITION OF ENTITIES SOLD OR OTHERWISE DISPOSED OF

WUSHINE/WUGAZELLE - The six air proprietaries in the WUSHINE and WUGAZELLE complexes were sold as a package in 1969 to a group of witting U.S. businessmen who had acted as nominee officers, directors, and stockholders for the companies in the WUSHINE complex. Although the group offered to provide cover and/or air support to the Agency after the sale, this offer was not made a condition of the sale, and no understanding or contract was negotiated for prospective purchase of goods or services or cover support. To date, the proprietaries sold have not been used by the Agency.

ZRCREST - These two air proprietary entities were sold in 1974 to the businessman who managed both entities during the period of Agency ownership. No agreements for the continued use of the entities sold were negotiated or implied at the time of sale, and, to date, no subsequent use has been made of the entities by the Agency.

WUCLOAK/WUDUSTER - This air proprietary was sold in 1968 to the witting businessman who managed the entity during the period of Agency ownership. No agreement for the continued use of the entity sold was negotiated or implied at the time of sale, and, to date, no subsequent use has been made of the entity by the Agency.

WUHARPY - This air proprietary (parts procurement) was sold in 1965 after all assets had been removed (a corporate shell) to the witting group of businessmen from which the entity was originally purchased. No agreement for the continued use of the entity sold was negotiated or implied at the time of sale, and, to date, no subsequent use has been made of the entity by the Agency.

WUCLOAK/WUVITAL - This air proprietary entity was sold in 1972 to an unwitting, bona fide airline company. No agreement for the continued use of the entity was negotiated or implied at the time of sale, and, to date, no subsequent use has been made of the entity by the Agency.

IUQUEST/IUABATE/IUPAGAN - Substantial assets of these two IUQUEST air proprietary entities were sold in 1975 to a bona fide aviation company which was made witting for purposes of the sale. No agreement was negotiated or implied at the time of sale for Agency use or purchase of goods or services from the company which purchased the assets. To date, no goods or services have been purchased from the buyer. The entities were subsequently liquidated.

WUSAXA/WUACUTE - This air proprietary entity was sold in 1971 to an unwitting businessman. No agreement for continued use of the entity by the Agency was negotiated or implied at the time of sale, and, to date, no such use has been made of the entity.

WUBEVY - This proprietary, which published travel guides and was used as cover for Agency officers worldwide, was sold in 1968 to the editor of the travel guides. The editor was an Agency employee and retired at the time of the sale. No agreement was negotiated or implied for the continuing use of the entity after sale. To date, no goods or services have been purchased from the entity by the Agency.

POEARLY - This proprietary entity, which provided status and access cover for several case officers in the Far East, was sold in 1975 to unwitting purchasers. There have been no Agency contacts with the purchaser since then. All sale proceeds were returned to the Agency.

CALANCET - This proprietary, which provided cover support in Europe, was sold in 1965 to a witting, bona fide company which provided technical assistance and marketing support to the proprietary during the period of Agency ownership. No agreement was negotiated or implied for prospective use of the entity by the Agency, and no such use was made by the Agency. The bona fide company, did, however, continue to provide cover for Agency officers in other areas and under offices not related to the former proprietary's business activities.

STFANWEED/STDOLLAR - This proprietary was an import-export firm which provided cover for one Agency employee in the Far East. The entity was sold to the Agency employee in 1966 at the time of his retirement from the Agency. No agreement was negotiated

6

STFANWEED/STDOLLAR (continued) - or implied at the time of sale for the Agency's purchase of goods or services, and, to date, no such use has been made of the entity.

STYMYSTIC - This small proprietary, which provided cover for one Agency employee in the Far East, was liquidated in 1974. A covert relationship has continued with the owner of the parent company of which the Agency proprietary was a subsidiary. The owner provides cover in the parent company for another Agency employee, and the parent company moved into the premises vacated by the subsidiary and was allowed to take over fixtures and a rental deposit at no cost.

MIHELEN - This proprietary, which provided cover for one Agency case officer in the Far East, was sold in 1974 to two local-hire employees of the firm. All Agency connections with the firm were severed at the time of sale.

MIPACT/MICOUNCIL - This proprietary, which provided cover for one Agency employee, was sold in 1970 to the unwitting members of its Board of Directors. At the time of sale all Agency connections with the entity were severed.

MHTHROW - This proprietary (part of the insurance complex) was formed for the purpose of purchasing an apartment overseas which was used for operational purposes. When the apartment was no longer of operational use in 1970, the company (and the apartment) was sold to a non-Agency connected party. No agreement for the continued use of the corporation or the apartment was made with the purchaser, and, to date, no such use has been made of the entity or the apartment.

MHMATTE - This proprietary (part of the insurance complex) was established to purchase an apartment overseas of operational interest to the Agency. When the apartment was no longer needed for operational purposes in 1970, the corporation (and the apartment) was sold to a non-Agency connected party. No agreement for the continued use of the apartment or the entity was made with the purchaser, and, to date, no such use has been made of the apartment or the entity.

MHIRONY	-	This proprietary was established for the use of the insurance complex, but it was never activated. The corporate shell was sold in 1974 to the unwitting attornies who served as resident agents. No agreement was made with the purchaser for the continued use of the entity, and, to date, no such use has been made of the entity.
WUEMBARK/WUHALFIN	-	This air proprietary was merged with another air proprietary (ZRCLIFF) in 1968.
WUSTAKE/WUHOBBY	-	This air proprietary was sold to the businessman who managed the proprietary during the period of Agency ownership on the condition that the Agency would buy back the proprietary if the contract which sustained the proprietary was not renewed by USAID. The USAID contract was not renewed, and the businessman dissolved the entity on behalf of the Agency in 1968.
WUSAXA/WUBLUSEE	-	This air proprietary was disposed of by transferring all assets to another air proprietary and turning over the corporate shell to two unwitting foreign national nominees. No agreement with the nominees for the purchase of goods or services subsequent to the turn over was negotiated or implied, and, to date, no use has been made of the entity by the Agency.
MOMARRON	-	This proprietary was established in the Far East by two foreign agents of the Agency to provide support services for Agency-sponsored air operations. The company failed, at least partly due to embezzlement by the two agents, and was liquidated apparently in late 1962 or early 1963. The Agency station in the country involved continued to maintain a covert relationship with the two agents who were politically significant for some time after the liquidation. The relationship was non-proprietary.
WULAZY	-	This proprietary was involved in support of air activities for a large Agency paramilitary program in Africa. At such time as the program was concluded, all assets were removed from the company, and the corporate shell was given to the attorney who established the entity in lieu of paying his prospective fee for dissolving the corporation.

TAB D
Page 5

YJPASTIS - This proprietary, which provided cover support for one Agency officer in the Far East, was abandoned when the country was overrun by Communist forces. The assets left behind will be written off.

QRBEND - This proprietary, non-profit organization was turned over to its management in 1967 when the Agency withdrew its support to the entity. No further Agency support has been given to the entity, and the management intended to continue the program with private and USAID support.

ZROCCUR/ZRMIDDY - This proprietary non-profit, medical organization was disposed of in 1967 by transfer of all of its assets to the witting Board of Directors for continuation without Agency support. No further Agency support was given to the entity.

QRSENSE/KMOCHRIOD - This proprietary, non-profit entity was disposed of in 1968 when all assets were turned over to the witting trustees who intended to continue the operation with private support. No further support was given to the entity by the Agency.

AESILVER - This foreign proprietary research institute was disposed of in 1967, at which time the Institute was surge funded to permit it to continue operations for approximately two years while a search was made for private funds to enable continuation of the Institute or permit its orderly liquidation. In mid-1969, the Institute ceased its activity since sufficient private funds could not be located to fund Institute programs. No Agency support was provided after 1967.

PAWALRUS - This proprietary entity published an English language periodical in the Near East. The publishing rights plus certain assets were sold to indigenous purchasers and the proceeds of sale were used to pay off corporate liabilities prior to dissolution of the entity. Since the periodical continued to publish articles which coincided with U.S. objectives for the area concerned, the Agency provided limited support to the new owners to enable them to continue the publication.

TAB D
Page 6

POVARSITY - This proprietary publishing firm in the Far East provided cover support for one Agency employee who introduced foreign books and articles to Far Eastern media sources. In 1975 the firm was de-registered and certain assets were sold to a former employee of the firm who re-registered the firm under a different name. The Agency employee who was provided cover by the entity is still active in the Far East under a new cover and the only contact with the purchaser is in the interest of maintaining the cover story of the active Agency employee. No support is being extended to the re-registered entity.

QRGLAD - This activity provides support to a foreign based asset to permit him to publish a foreign language journal. The activity was inaccurately and inappropriately categorized as a proprietary when an Administrative Plan was prepared in 1971. The error was corrected in 1975 when the activity was accurately categorized as a controlled subsidy. The operation continues with Agency subsidy support.

AEEGGHEAD - The U.S. proprietary portion of this book publishing activity was legally liquidated in 1968. Funds remaining after settlement of all liabilities were transferred overseas to other parts of the operation and were used to meet approved operational expenses. Some of the remaining stock of foreign language books was given to a cleared and witting contact who had served without compensation as an officer of the proprietary mechanism. The remainder was shipped overseas to be distributed by the overseas mechanisms of the operation which are not proprietaries. They continue to distribute books with Agency subsidy support.

LPCAPTAIN/LPCANAL - This proprietary, which provided management and accounting services for Agency activities in Europe, was disposed of in 1974 by removal of all assets from the entity and transfer of the corporate shell to the U.S. businessman who had backstopped the company without compensation. No support has been given to the entity or use made thereof by the Agency.

TAB D
Page 7

LADYCHAPEL - This proprietary was established to purchase an apartment building in Europe for Agency office and residential use. In 1968, then the building was of no further use to the Agency, the entity with the apartment building was ostensibly given to the Department of State as a gift. The Department actually reimbursed the Agency for the building in Washington. The Agency, on behalf of the Department, is attempting to liquidate the company. This is complicated by a disputed foreign tax claim.

WUTACTIC/WUDOLLOP - This operational support mechanism had no assets at the time of its disposal in 1971, and the corporate shell was turned over to the attorney who established the company in lieu of payment of his prospective fee for dissolving the entity.

SECRET

TAB D

Disposition of Entities Sold or Otherwise Disposed Of

JBARGON - This air support proprietary (maintenance facility) was sold in January 1975 to a bona fide aviation concern which was made witting of the Agency's ownership of the firm for purposes of the sale. At the time of sale, it was agreed that JBARGON would continue to provide aircraft maintenance, supply, and bookkeeping services to JBCHOKE, the former parent company of JBARGON. Since the date of sale, JBARGON has provided $612,000 worth of aircraft maintenance, supply, and bookkeeping services to JBCHOKE; JBCHOKE is now in the process of liquidation.

DEINHAUL - This proprietary lending institution (bank) was established in a European country in 1955 to provide loans and outright grants to non-communist cooperatives. The proprietary was ostensibly owned (backstopped) by a bona fide U.S. foundation which was subsidized by the Agency, and the bank was managed by a bona fide management company on behalf of the Agency. By 1962 when it was determined that the bank had accomplished its purposes, the Special Group (predecessor to the 40 Committee) instructed that the bank be phased out in an orderly manner over the next five years. Various disposal plans were considered over the next few years, and in 1965 the Agency sold the bank (through its ostensible owner--the foundation) to the firm which managed the bank during the period of Agency ownership. In payment, the foundation accepted notes from the management firm, payable over a four year period. It was expected that the payments of the purchase price would come from the proceeds derived from the repayment of various types of loans made by the bank, and it was recognized that certain unsecured bank loans were of questionable collectibility. Accordingly, that portion of the purchase price which was tied to the repayment of these loans was subject to adjustment for litigation expenses associated with collection and a 20% collection fee. Also, this portion of the purchase price was not subject to interest on the unpaid balance. It was also agreed that the bank would administer a fund of $100,000 set aside by the Agency for continuing grants in less than $25,000 amounts for Agency approved activities which were

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7

DEINHAUL (Cont'd) - in concert with the original objectives of the project. In 1967 under the terms of the Katzenbach Report, it was necessary for the Agency to discontinue its support to the bona fide U.S. foundation (ostensible former owner of the bank as mentioned above) which had acted as a collection agent for the sale proceeds. Incident to the Agency's disengagement from support of the foundation, the foundation was allowed to keep all proceeds from subsequent payments on the purchase price for the bank.

LPJACK - This travel service proprietary was sold in 1975 to an Agency employee at the time of his retirement. This individual had ostensibly owned the firm but in fact only managed it for the Agency. No agreement was negotiated for the continued use of the travel service by the Agency, however, the Agency was using the travel service at the time of sale largely for the purchase of airline tickets for travel in support of sensitive projects. This practice still continues, and it is estimated that Agency business represents about 30% of the gross airline ticket sales of the entity on an annual basis.

WUSWAMP - The Agency owned 50% of the equity in this foreign entity which constructed low cost housing in one of the less developed countries of the world. The Agency's equity was sold to WUPESKY, a private company which provided cover for an Agency employee who managed the Agency's foreign low cost housing program. No agreement was made with WUPESKY for the subsequent purchase of services or products of WUSWAMP, and no such purchases were made. Nevertheless, WUPESKY continued to provide cover for the Agency Employee until 1973.

HTNAMABLE - This proprietary was a non-profit organization which undertook high risk scientific research programs in support of Government sponsored reconnaissance programs. In 1966, the Agency decided to terminate its proprietary relationship with the entity and it was determined that, because of the charter of non-profit organizations, any proceeds from the liquidation would have to be given to other non-profit organizations or foundations. Accordingly, the plant and equipment were sold to a profit making corporation which created a subsidiary around the assets purchased. The proceeds of the sale were distributed among

several non-profit organizations under Agency control. An unwritten condition of the sale was that the Agency would contract with the new organiziation for scientific research of interest to the Agency in the amount of about $900,000 over an eighteen month period. Only about $770,000 was so committed, and all Agency relations with the successor organization were terminated in 1968.

LILISP/G - This media type proprietary provided cover for an Agency employee who arranged for a foreign motion picture firm run by an American to produce and distribute foreign language films throughout Latin America. For funding purposes, the proprietary borrowed working capital from another proprietary, LPBERRY/A, and paid production and distribution costs in anticipation of a return on the proceeds of film distribution. The proprietary was dissolved in 1961, and all rights to the net profits of distribution were assigned to LPBERRY/A in return for cancellation of the note it held from the proprietary. After much wrangling with the American owner of the film production and distribution company, it became evident that appropriate reports were not being submitted covering recoupments or net profits and the Agency negotiated a settlement which provided that LPBERRY/A and the distribution company would render no further claims against each other. Relations eased at that point.

AMHIM - This media proprietary compiled, published, and distributed a newsletter overseas. In 1975, when the Agency withdrew its support, it was decided to discontinue the publication activity, and the assets of the company were turned over to AMHIM/1, the editor and manager, to enable him to maintain a status independent of the Agency as a commercial print shop.

QKACTIVE - This proprietary radio broadcasting activity was turned over to the Department of State for support and subsequently placed under the control of the Board of International Broadcasters for continued operation with Congressional support.

QRMASTER - This media type proprietary which was involved in radio and TV projects was established in 1963 and continued under Agency ownership until 1969 when it was sold

QRMASTER (Cont'd) - to its manager with full expectation of continued operation with heavy Agency subsidy. At the time of sale, substantial funds were removed from the entity leaving it without sufficient working capital. Consequently, the Agency arranged for a line of credit through a bank guaranteed by the funds removed from the entity. Subsequently, the manager, with Agency permission, sold the entity to a group of foreign nationals. The manager formed his own corporation which contracted with the Agency for services including the continued management of the company sold of which he was still president. A management dispute resulted in the removal of the manager from the first corporation and the bank seized the guarantee for the line of credit which had been drawn down and used as working capital for the first entity. The manager, no longer supported by the Agency, is the channel through which the Agency is to receive repayment of loans which arose out of the line of credit. So far, the Agency has received no payments.

TPTONIC
TPTONIC/FJINDULGE
LPTONIC/ZRNACARAT - These three proprietary entities were part of a substantial radio broadcasting activity which was turned over to the Department of State for support and subsequently placed under the control of the Board of International Broadcasters for continued operation with Congressional support.

ZRCANNY - This U.S. foundation type proprietary served as a funding mechanism for a labor organization supported by the Agency. In 1968 all assets plus a termination grant were turned over to the group of U.S. businessmen who backstopped the Agency entity. All Agency funds destined for the labor union were transferred to that organization, and the Agency created a foreign funding company (QRSPIDER) utilizing the same businessmen to continue support to the union. The foreign entity is still in being, although inactive, and will be dissolved after all tag end negotiations are concluded with the former management of the labor organization which continues in revised form without Agency support.

DTHABEAS - This proprietary non-profit entity was supported by the Agency until December 1974 when all Agency funds were withdrawn and the furniture and fixtures

DTHABEAS (Cont'd) - were given as a gift to the witting directors who proposed to continue the entity as a private organization. No further contact has been maintained with the entity.

DTEMBARGO - This foundation was established in 1938 without Agency support. After a long period of inactivity, the Agency took over the entity in 1953 and used it to support a publication produced at a U.S. University and aimed at Latin America. In 1967, the Agency withdrew its support to the publication, withdrew Agency funds from the foundation, and gave the office furnishings to the witting directors of the foundation with the stipulation that the furnishings would be turned over to the university.

ZRTINDER - This proprietary institute was supported by the Agency until 1968 when all assets and liabilities plus a termination grant was turned over to the management and ostensible owners of the entity to enable the organization to continue without Agency control or support. No further contact was maintained with the organization.

QRTROW - This former proprietary is an institute located in Europe which seeks to influence and encourage moderate and pro-democratic youth leaders and government officials concerned with youth and higher education. The Agency withdrew its support from the institute in 1974 and turned over all assets to the management of the organization. In addition, the Agency provided surge funding in the amount necessary to enable the entity to exist in reduced form for about one year during which time the management would attempt to arrange private support. All Agency employees involved in the project terminated their employment relationship with the Agency or were reassigned, and the Agency has not rendered further assistance to the operation.

PAFANFARE - This foundation type proprietary provided grants and other support to individuals and organizations of interest to the Agency in the Near East. At the project's termination residual funds were turned over to one of the witting trustees to permit the continuation of the activity for a period of time without Agency support. No further Agency support has been given to the organization.

QKFEARFUL - This foundation type proprietary provided support to a bona fide international organization interested in international legal matters. At the time the Agency withdrew its support for the activity in 1969 the assets of the proprietary plus termination funding were turned over to the witting Board of Directors. The organization, now under a new name, continues to exist without Agency support.

WSFLUFFER - This foundation type proprietary provided funds to a bona fide foundation involved with the development of international cooperatives. At the time the Agency withdrew its support from the cooperative program, the entity was dissolved, however, it had been anticipated that the entity would be the recipient of funds resulting from the sale of a proprietary lending institution in Europe. The bona fide foundation which was part of the funding channel for the European bank was allowed to retain the proceeds of the sale when WSFLUFFER was dissolved. See the write-up under DEINHAUL for more details of the sale of the European bank.

DTPILLAR - This foundation type proprietary supported individuals and organizations of interest to the Agency in the Far East. At the time the Agency withdrew its support for the activity in 1967, the assets of the organization with a substantial termination payment were turned over to the witting Board of Directors of the entity. The entity has continued its work without Agency support.

DTLAMPREY - This foundation type proprietary supported an international organization concerned with individuals in the teaching profession. At the time the Agency withdrew its support from the international organization, the proprietary was dissolved after making one last termination grant to the international organization. The international entity has continued without Agency support.

QKOPERA/DTGODOWN - This foundation type proprietary supported individuals and international organizations involved with cultural matters. To give the entity substance and provide funds for day-to-day administration, the Agency started the organization with a substantial grant which was invested in

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QKOPERA/DTGODOWN (Cont'd) - income producing securities. At the time the Agency withdrew its support, the assets of the entity were given to its witting Board of Directors with the understanding that approximately 60% of the portfolio of investments would be retained by the organization to sustain its continued operation without Agency support, and 40% of the proceeds of the portfolio would be immediately granted to other organizations and activities which fostered the objectives of the QKOPERA project.

QRMUGWUMP - This small proprietary provided cover for one individual overseas. In 1972, the employee resigned and expressed a desire to continue the business without Agency support. Accordingly, the meager assets of the entity were sold to the resigned employee. Payment for the entity took the form of offset against funds due the employee on separation, lump sum leave payment, return travel, etc. The Agency has had no further interest in the entity.

TGVIVID - This proprietary travel Agency provided cover for an Agency employee overseas. When the employee was reassigned in 1966, all assets were converted to cash and turned back to the Agency. Nevertheless, an indigenous employee of the entity, and a contact of the Agency Station in the country involved, was allowed to take over the name and clientele and continue the business. No commitments or agreements were made for continued use of the business, and no support was subsequently provided or sought from the business.

AMOT - This proprietary, which produced economic and sociological reports in support of Cuban operations, was dissolved in 1973 and its assets turned over to another proprietary, SLIGO. SLIGO was subsequently dissolved in 1975 (see list of dissolved entities.)

SECRET

b) THE SALE OF SOUTHERN AIR TRANSPORT, INC.: A CASE STUDY IN DISPOSAL OF A CIA PROPRIETARY

BACKGROUND

Southern Air Transport Incorporated (SAT) is a U.S. Air Carrier, incorporated in the State of Florida on October 31, 1949. From its inception until its purchase in 1960 by the Central Intelligence Agency (CIA), it was privately owned by Messrs. Fredrick C. Moor and Stanley G. Williams. It was purchased by the CIA on August 5, 1960, and owned by the CIA through December 31, 1973. CIA sold the firm back to Mr. Williams on December 31, 1973.

The decision to acquire Southern Air Transport was triggered by a change in the regulations governing the award of Military Air Transport Service (MATS) contracts. On April 1, 1960, Air America (AAM) had begun flying a seven-month MATS contract operating out of Tachikawa AFB in Japan, to other Pacific locations. In June of 1960, the Department of Defense (DOD) and the Civil Aeronautics Board (CAB) changed the regulations governing the awarding of MATS contracts to require that bidders hold at least a Supplemental Certificate of Convenience and Necessity for an Air Carrier and that they participate in the Civil Reserve Air Fleet Program (CRAF). Air America did not meet either of these new criteria and could not obtain appropriate waivers to them. The Air America heavy airlift capability represented an asset for use by the U.S. Government in future operational contingencies throughout the Far East area. Loss of the MATS contract would result in under utilization of aircraft and air crews and the

MATS contract revenues were needed to sustain these assets. Therefore, it was proposed that either AAM should obtain the necessary certification or that the Agency should buy another commercial firm that already held these certifications. The October 1, 1960, contract date and the need for public hearings and lengthy proceedings militated against AAM applying for the certificate themselves. Also, again in order to avoid lengthy public hearings, which would be time-consuming and generate public exposure, it was decided that the ownership of the company to be acquired must be kept completely separate from AAM. This solution was concurred in by the CAB, the DOD, the CIA, and AAM management.

It was anticipated that if the new company were awarded the ongoing MATS contract, it would actually perform the flying service but would use equipment under conditional sale from AAM and would employ personnel transferred from AAM. Under inter-company agreements Air America would provide all maintenance work, ground handling, and other services for which it would be reimbursed by the new company. In this way, Air America would share in the revenues generated by the MATS contracts.

The proposal to purchase a supplemental carrier and operate it under the above arrangement was approved by Allen Dulles as Director of Central Intelligence (DCI) on July 15, 1960. Funds from the Clandestine Services budget for FY 61 were made available for the purchase.

After World War II there ~~had been~~ were over 200 supplemental carriers in existence. By 1960 there were only 18 still operating. Air

America management made a survey of the 18 and determined that Southern Air Transport in Miami, Florida was the most attractive as a purchase possibility. It operated two C-46s -- one owned, one leased -- between Miami and points in the Caribbean and South America. Its associated company owned the four-acre property on which SAT was located. Moreover, it operated at a modest profit and had no long-term debts.

Negotiations for the purchase of SAT were successful and on August 5, 1960, the CIA exchanged $307,506.10 for all outstanding shares of capital stock of SAT and its real property owning affiliate. The Agency owned these shares in the name of Roger C. Hyatt, a former board member of Air America. Mr. Hyatt together with Percival Brundage and Perkins McGuire were added to the SAT board of directors.

Under CIA management Southern Air Transport operated with two semi-autonomous divisions: the Pacific Division and the Atlantic Division. The Pacific Division performed the MATS contract and supported Agency heavylift requirements in East Asia. The Atlantic Division continued to operate in the Caribbean and South America; doing the same sort of flying SAT had done prior to Agency acquisition. The Atlantic Division was also able to furnish certain support for the Cuban and Congo operations. At the peak of its activities, the SAT fleet, comprised of both owned and leased aircraft, included Douglas DC-6, Boeing 727, and Lockheed L-100 Hercules aircraft.

THE SALE

In 1972 it became apparent that the Agency's air capabilities were becoming excess to its needs, and that political realities and future operational requirements in the post-war era of Southeast Asia would not require large air proprietary assets. On April 21, 1972, the Director of Central Intelligence approved in principle the divestiture of CIA ownership and control of the Air America complex and Southern Air Transport. He approved recommendations calling for Air America to be retained until the end of the war in Southeast Asia, the immediate elimination of the Pacific Division of SAT, the sale of the two 727 aircraft leased to SAT by Air America, and subsequent divestiture of Agency ownership and control of the remainder of SAT.* Specific note was made that conflict of interest should be avoided and that no employee should receive a windfall benefit as a result of these transactions.**

In May 1972, Agency officials (Charles Kane and Lawrence Houston) met with the Chairman of the Civil Aeronautics Board, Secor D. Browne, and his Administrative Assistant, Edwin Rector, to seek informal advice as to the best way to disengage from SAT. Three alternatives were discussed: (1) dissolve the company and sell the assets; (2) sell the assets to the current operators of the company; (3) sell SAT to, or merge SAT into, one of the other supplemental carriers.

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* The Director determined that "we no longer should retain air proprietaries purely for contingent requirements and that on the record, therefore, the Agency should divest itself of the Southern Air Transport complex entirely. He stated the opinion that the desirable course of action would be dissolution, although he realized that the problems were many and complex. Also, he did not rule out other solutions which might achieve the end and yet better satisfy the interests of all concerned."

** A condition imposed by the DCI was that "in the disposition of any of the assets involved nothing inure to the benefit of Agency employees or former employees or persons whose relationship with the Agency has been or is of such a nature as might raise a question of conflict of interest."

The CAB chairman discouraged option (3) because it would involve public hearings and would be subject to criticism by the other supplementals. Option (1), although least troublesome from the legal and exposure standpoints, would further reduce the shrinking number of U.S. supplementals (by 1972, there were only eleven supplemental carriers left) and would be unfair to SAT employees. The CAB officials had no problem with option (2). On 5 May 1972, the DCI was presented with the results of the meeting with the CAB chairman. He approved the recommendation to explore the sale of the equity in SAT to the current management. It was noted that SAT had been operating as a supplemental carrier for 25 years, none of the employees of SAT had ever been an employee of the Agency and that both the Department of Defense and the chairman of the CAB considered it in their best interests to keep SAT as a viable carrier rather than dissolving the company and selling the assets. The rationale behind selling SAT intact to its management was:

a. Liquidation would deprive the U.S. of a useful air carrier and would be unfair to the employees.

b. Sale of SAT as a going concern on the open market would generate an unacceptable level of public interest and scrutiny. A publicly advertised disposition would run contrary to the Director's statutory mandate to protect intelligence sources and methods.

c. Although a potential for conflict of interest and windfall profit existed, sale of SAT to its management would best satisfy the requirements of everyone involved.

The DCI was, apparently, allowed this flexibility in method of disposal by statute. 40 U.S.C. § 474(17) provides that nothing in the regulations relating to disposal of surplus government property

shall affect any authority of the CIA. In addition, 50 U.S.C. § 403(d)(5) provides that the Director of Central Intelligence is responsible for protecting intelligence sources and methods from unauthorized disclosure. It was determined that sale of SAT stock to Mr. Williams in a confidential manner would best prevent damage to national security and foreign relations of the United States which could result from disclosure of CIA ownership.

Agency officials began exploring ways in which SAT could be sold to its management without permitting a windfall to accrue to the buyer and in a way that could not be construed as a conflict of interest. To establish a reasonable selling price, the Agency asked the Certified Public Accounting firm of Lybrand, Ross Brothers and Montgomery (now doing business as Coopers & Lybrand) to perform a valuation study. They in turn engaged R. Dixon Speas Associates, Inc., aviation consultants, to establish an evaluation for the aircraft. The following values were developed:

a.	Book Value of SAT	$3.9 million
b.	Estimated Total Value of SAT Capital Stock on Open Market	$2.645 million
c.	Disposal as going concern	$2.1 million
d.	Liquidation Value	$1.25 million
e.	Agency Investment	$1.5 million

Based on these figures, the Executive Director-Comptroller on August 17, 1972, approved an asking price of $2.7 million. Sale at this price to the management would require simultaneous payment in full of the $3.2 million note payable to Air America through

Actus Technology (as the associated land holding company had been renamed) and would not include any equity in the lease/purchase agreement between SAT and Air America for a Lockheed L 100-30 Hercules aircraft. Although this $2.7 million price was less than the $3.9 million book value, it did exceed the fair market value of the company as calculated by professional appraisers. The appraisals were based not on depreciated purchase prices for assets, as reflected in book values, but rather on either the earning power of the assets adjusted to "present value" or the current resale value for all assets.

On August 23, 1972, Mr. Williams was advised of the asking price for SAT of $2.7 million for the acquisition of stock and $3.2 million for payment of debt to Air America or a total of $5.9 million. A deadline date of October 1, 1972, was established; otherwise Mr. Williams was advised that the firm would be dissolved and the assets liquidated. Although Mr. Williams contended the asking figure should be reduced since the outstanding loan to Air America had been reduced since the date of the study by Coopers & Lybrands, Mr. Williams stated he would attempt to work out financing within the deadline date of October 1, 1972. This deadline was extended by the Agency to December 4, 1972.

On December 5, 1972, Mr. Williams submitted an offer for SAT of $5 million which comprised $1.875 million for the acquisition of SAT and $3.125 million to pay off the debt to AAM. On December 26, 1972, the Executive Director-Comptroller approved the recommendation that Mr. Williams' offer be rejected and that if Mr. Williams was

unable to raise by January 20, 1973, the additional funds required for the original purchase price of $5.9 million, including the Air America debt, that the Agency proceed with liquidation plans and dismissal of SAT employees not later than February 1, 1973.

On January 11, 1973, Mr. Williams submitted a new proposal to purchase SAT for a total price of $5,605,000. Mr. Williams cited a tentative commitment for a loan of $4.0 million and his offer was contingent upon an additional loan. The offer called for a total payment of $5,605,000 broken down as follows:

Acquisition of stock for Actus and SAT	$2.145 million
Payment of debt to Air America	3.125 million
Credit for payments to AAM since 10 June 1972, in liquidation of long term debt	.335 million
Total payment	$5.605 million

Prior to accepting Mr. Williams' offer, CIA representatives again discussed the sale of SAT to Mr. Williams with the CAB. Mr. R. Tenney Johnson of CAB indicated that the board would be interested in seeing SAT continued. Mr. Johnson stated it would not be necessary to surface the Agency's name as the true owner of SAT in the CAB proceedings, and that he did not anticipate any problems with other supplemental carriers as a result of the sale to Mr. Williams.

On January 19, 1973, the DCI approved the sale of SAT to Mr. Williams. It was noted that Mr. Williams' offer was within 5 percent of the original asking price, was above the independent evaluation for sale as a going concern and was at a figure which would not seem to give the buyer windfall profit. Such sale would constitute a

clean break-away of SAT from the Agency with the exception of a one year extension on the lease/purchase agreement for an L 100-30 aircraft from SAT. This agreement for sale between Mr. Williams and the Agency included a provision that any profit derived from the sale of assets within one year would constitute a windfall and would be added to the total sale price.

On February 28, 1973, the Board of Directors of SAT executed corporate action on the Agreement for Sale of SAT to Mr. Williams. Closing date was established at not later than 30 days after CAB approval. On March 1, 1973 application for approval of acquisition of control of SAT by Mr. Williams was filed with the CAB under Docket No. 252-64. It was anticipated that CAB approval would be forthcoming within 60 days.

Subsequent to the agreement for sale and application to CAB, several supplemental carriers generated a great deal of pressure to prevent SAT from being sold to Mr. Williams and to prevent SAT from operating as a supplemental carrier. They applied This pressure ~~was applied~~ through their Congressional representatives, the General Accounting Office, the General Services Administration, and other ways. The various supplemental carriers objected to the sale of SAT for a variety of reasons. Basically each objected to the portions of SAT's operating authority which would allow SAT to compete with it. Specifically, representatives of Overseas National Airways (ONA) indicated that ONA would not oppose the sale if Mr. Williams would voluntarily renounce his rights to Trans-Pacific routes. World

Airways and Trans International Airways (TIA) objected to SAT operating any aircraft as large or larger than a 727 in the Far East. Saturn Airways objected to SAT bidding on any domestic MAC contracts. To restrict SAT to satisfy all potential competition could make SAT sufficiently unattractive as a profitable investment that financing could become unobtainable. With this in mind the Agency took the position that agreement for sale of SAT had been executed, subject to CAB approval. If the CAB ruled against the sale and ownership reverted to the Agency, the Agency would cease any bids or service under MAC contracts and dissolve SAT.

Two of the other supplementals, Saturn and ONA, expressed interest in buying SAT. ONA did not make a cash offer. On June 29, 1973, Saturn Airways, however, made a cash offer of about $2 million in excess of what Mr. Williams had offered. There were, however, according to the Agency, compelling reasons not to pursue these offers. Agency officers had reason to believe that ONA was not as interested in actually buying SAT as they were in getting a commitment from the Agency which could be used to compromise the Agency's position in future CAB hearings. Three reasons for not accepting either offer were:

a. Any merger with another supplemental carrier would necessitate a very difficult series of CAB hearings during which all other major supplementals would certainly voice loud and strenuous objections.

b. To sell the firm on a sole-source basis to either outside buyer without soliciting public bids would be contrary to sound business practice and would attract even more adverse publicity.

c. Both offers were made directly to officials of the CIA and not to the stockholders of record. Although the relationship between the CIA and SAT was the subject of much public speculation, such relationship was still classified and an acceptance of either offer would be a violation of security and cover.

These procedures were unacceptable to the Agency and dissolution of the firm or sale to Mr. Williams continued as the most acceptable method of divestiture, subject to CAB approval.

In view of the objections by other supplemental carriers to the sale of SAT to Mr. Williams and the award by the Air Force of a Logistics Air contract (LOGAIR) to SAT, the DCI directed on July 31, 1973, that SAT be dissolved, that SAT withdraw from the LOGAIR contract and withdraw its application for renewal of supplemental certificate. Mr. Williams was advised of this decision, but made a counteroffer to purchase the company under the previous financial offer but turn in his supplemental certificate, withdraw application for acquisition for sale from CAB, and operate SAT as a commercial carrier under Federal Aviation Regulation Part 121 authority. Such action would remove SAT from direct competition with the supplementals, but leave it with a worthwhile market in which to operate. Additionally, no CAB hearing would be necessary to obtain this type of

operating authority.

On October 1, 1973, the DCI agreed to entertain the proposal to continue the sale of SAT to Mr. Williams as a Part 121 operator, but on the condition that Mr. Williams must obtain prompt financing. Otherwise, the firm would be dissolved.

On October 5, 1973, the SAT Board of Directors approved and executed a new agreement for sale including the following provisions:

a. Mr. Williams to acquire stock of SAT Actus for $2,145,000.

b. Mr. Williams to pay off $3,125,000 owed to Air America.

c. Agreement subject to Mr. Williams obtaining $4 million loan.

d. Agreement to be subject to SAT withdrawing application for renewal of its Certificate of Necessity and Convenience for an Air Carrier (Supplemental Certificate).

e. Lease/purchase agreement for L-100 between AAM and SAT to be extended one year.

f. Anti-windfall provision to be effective for one year from date of sale.

On November 29, 1973, Mr. Williams received a commitment from The First National Bank of Chicago for a loan of $4.5 million thereby making the October 5, 1973, agreement operative. On November 30, 1973, the DCI approved the sale of SAT in accordance with the October 5 agreement for sale. On the same day, the application to the CAB for acquisition of SAT under Docket No. 252-64 was withdrawn.

and petition for cancellation of certificate and termination of exemption authority was filed with an effective date of December 30, 1973. On December 31, 1973, the sale was closed, the note to Air America was paid off, and Stanley G. Williams became the sole owner of SAT.

In early January 1974, CIA officials learned from Air America management that SAT had exercised the purchase option of the lease/purchase agreement between SAT and Air America for the Lockheed L 100-30 Hercules aircraft. The option sale price from Air America was $3,150,000. SAT immediately resold the aircraft to Saturn Airways for $4,350,000 turning a quick $1.2 million profit. The Agency interpreted this sale as a violation of the anti-windfall provisions of the agreement for sale. On January 25, 1974, Air America executed an Escrow and Arbitration Agreement on behalf of the CIA with SAT on the disputed $1.2 million profit. The agreement called for $750,000 to be placed in escrow with the American Security and Trust Company of Washington, D.C. The escrow funds were to be held as a Certificate of Deposit purchased at the prevailing market rate. It was further agreed that SAT would also place in escrow a Promissory Note to Air America for the remaining $450,000 of the disputed amount. The note was to bear interest at the same rate currently being earned on the Certificate of Deposit in escrow. It was arranged that the escrow deposits plus accrued interest would be paid to the party deemed in favor by an arbitrator with each party to pay one-half of the costs of arbitration. On September 5,

1974, the arbitrator ruled in favor of Air America. This decision caused an additional $1,304,243 to accrue to the Agency from the SAT sale. This was the sum of the $1.2 million under arbitration plus accrued interest, less the Agency's share of arbitration costs.

DECLASSIFICATION OF RELATIONSHIP WITH CIA

In March 1974 the employees of SAT retained an attorney and brought a class action suit in U.S. District Court for Southern Florida against Southern Air Transport, Inc., and the Central Intelligence Agency. The employees as plaintiffs sued for injunctive relief and damages. In this suit the employees alleged:

a. That the CIA sold the stock of SAT to Mr. Williams illegally,

b. That SAT had embarked on a program to sell off its assets, depriving the plaintiffs of employment,

c. That the plaintiffs were entitled to the benefits of the CIA Retirement and Disability System, and

d. That their civil rights had been violated.

In view of the publicity arising from the allegations made by the other supplemental carriers during the CAB proceedings and the publicity arising from this suit, it was determined that no useful purpose would be served by continuing to deny the true ownership relationship of SAT by the CIA. It is noted, however, that the operational activities performed by SAT on behalf of the CIA were and remain classified. As a part of the Agency's defense in this suit, an affidavit of Mr. Harold L. Brownman, Deputy Director for Management

and Services of the CIA, was presented in court. In the affidavit Mr. Brownman delineated the relationship between the CIA and SAT and the authorities for purchasing and later selling the capital stock of SAT. He also defined the employment status of the plaintiffs as not being government employees and not being CIA employees and therefore not being eligible for participation in the CIA Retirement and Disability System.

In the Order Granting Motion for Summary Judgment, the court found that the sale of SAT capital stock to Mr. Williams was not in violation of law; the plaintiffs claim to be U.S. Government employees and entitled to CIA retirement benefits invalid; and that the SAT employees were not deprived of any civil right under any state law. As a result, the action was dismissed with prejudice as to the plaintiff. Although this suit did cause the relationship between the Agency and SAT to be officially made public, it did establish, in a court of law, two points favorable to the Agency:

a. The sale of SAT to Stanley Williams violated no laws and was within the authority of the DCI; and

b. The directly hired employees of CIA-owned proprietary firms such as SAT do not necessarily enjoy the status of U.S. Government employees.

CONFLICT OF INTEREST

In the SAT divestiture, the Agency took precautions to avoid conflict of interest. Mr. George A. Doole, Jr., retired Staff Agent and retired Managing Director of Air America, Inc., made

several offers to acquire SAT. In early 1972 he and some other members of AAM management made an informal offer to buy SAT. Then on August 7, 1972, Mr. Doole told Mr. Charles W. Kane, Agency official responsible for the management of SAT and AAM, that he, in association with World Airways and TIA, wanted to offer "book value" for SAT. He stated that they were not interested in SAT's certificate, but rather in the equipment and that if allowed to make an offer, it would be one that would not require CAB hearings. In both these cases, the Agency's General Counsel determined that because of Mr. Doole's close association with the Agency, the offer would be unacceptable. In later discussions, Mr. Doole asked to be allowed to bid on SAT in open bidding. The General Counsel's position on this request was that open bids would be begging the question in terms of conflict of interest. In any transaction this complex, selecting the bid is only a preliminary to the negotiated final sale.

Another potential conflict of interest involved Overseas National Airways. From the time the Agency first decided to divest, until the sale to Mr. Williams was consummated, ONA expressed continuing interest in an ONA/SAT merger. Their representative making these continuing overtures to the Agency was retired Admiral William F. Raborn, former Director of Central Intelligence. Admiral Raborn made literally dozens of phone calls to Agency officials and arranged many meetings, all for the purpose of pressing ONA's case to purchase SAT. ONA also proposed to arrange "shadow financing" for Mr. Williams if he would agree to merge with ONA at some later time. These offers

were all rejected because merger with another supplemental was not an acceptable solution and the apparent conflict of interest was too great.

The sale of SAT to the President of the firm, Mr. Stanley Williams, was another area of possible conflict of interest. However, Mr. Williams was not an employee of the U.S. Government during any period of association with SAT or CIA. He had been the owner prior to CIA acquisition and his role as nominal President of SAT during CIA ownership was at the direction of the CIA, which made or approved all decisions in regard to acquisition of aircraft and other major policy determinations. Additionally, this potential area of conflict had been recognized at the outset of sale proceedings, which was the basis for obtaining third-party professional evaluation and appraisals and the provision in the sale agreement against windfall profit from disposition of assets. An underlying philosophy for sale back to Mr. Williams was to restore the corporation to the status of private ownership once the need for it as a Government-controlled entity had terminated. Such action was considered in the best interests of the SAT employees as well as in the interest of the U.S. Government to maintain another viable commercial air carrier.

CONCLUSION

The CIA acquired ownership of SAT and its real property owning affiliate, by purchase of all outstanding shares of capital stock on August 5, 1960. Such acquisition was accomplished under the

authority of the Central Intelligence Act of 1949 in order to acquire a certificated air carrier to support its foreign intelligence operations. The purchase was accomplished after consultation and approval by the CAB and the DOD, and was not in violation of Section 410 of the Federal Aviation Act.

Following determination by CIA in 1972 that ownership of SAT was no longer required to support its foreign intelligence operations, the CIA undertook to dispose of SAT under the authority of the CIA Act of 1949 and the specific provision in the Federal Property and Administrative Services Act of 1949 (FPAS Act) that nothing in the act shall impair or affect any authority of the Central Intelligence Agency. In the case of Robert Farmer, et al., vs. Southern Air Transport, Inc., et al., the U.S. District Court, Southern District of Florida, Case No. 74-467-CIV-WM, upheld the authority of CIA to dispose of Southern Air Transport, Inc.

In disposing of SAT, the CIA determined after discussions with CAB that SAT should not be sold as a going concern in an open competitive market nor should merger with another air carrier be considered. Such action would involve lengthy procedures, hearings, and publicity which posed a threat to CIA's ability to protect intelligence sources and methods. While CIA initially was inclined to dissolve SAT and sell the assets, CAB and DOD both indicated their desire to maintain SAT as a supplemental commercial air carrier. Since this solution also would be in the best interest of the SAT employees and there were indications this could be

accomplished without revealing ownership by CIA, CIA approved exploring the sale of SAT to its previous owner and current nominal President, Mr. Stanley Williams.

The CIA took reasonable precautions to assure that a fair market price was received for the sale of SAT, and that no short term windfall profit would ensue. The CIA was mindful of conflict of interest problems, and obtained independent professional advice and guidance prior to executing an agreement for sale. The sale price finally received by the CIA exceeded the parameters established by this independent study.

In retrospect, it is possible that open competitive bidding for sale of SAT as a going concern could have achieved as much or more return to the U.S. Government for the assets of SAT. However, such assessment is only conjecture since this market was not fully tested. Also this method of disposal had the potential for greater publicity and revelation of intelligence sources and methods. In retrospect, the alternate solution of dissolution of the corporation and sale of assets probably would have created less publicity but again this is only conjecture, since the SAT employee law suit may well have been forthcoming in any event.

In conclusion, the CIA obtained a fair market value for the sale of SAT as evaluated by an independent professional appraisal. The legality of the disposal of Southern Air Transport by the CIA has been tested in court and has been shown to be fully within the statutory authorities and responsibilities of the DCI. The

precautions taken and the procedures established by the CIA considered the varying factors of responsibility for public funds, conflicts of interest, U.S. Government interests for the aviation industry and its employees, and national security. The CIA actions in the disposal of SAT, accordingly, were reasonable and proper.

VI. Project MHBOUND

In 1958, at the time construction of the new CIA headquarters building in Langley was begun, a small counterintelligence operation was established to maintain surveillance of activities to prevent hostile penetration and sabotage. It was successful in its objectives and, therefore, upon occupancy of the building in 1962 the Project, now known as MHBOUND, was established as an outgrowth of the initial effort.

From a single office in Arlington, Virginia, the project expanded to four field offices (Arlington, Falls Church, Los Angeles and St. Louis). Also, it grew from a single corporate entity into three separate corporations. The parent organization in 1962 was Anderson Enterprises, Inc., which operated in the greater Washington area and was set up to create a bona fide commercial corporation which would perform security services on a competitive basis for any and all individuals and companies which might require them, as well as Federal and local governmental units. In addition, it would conduct operations for the Office of Security of the CIA. This activity proved most successful, with customers utilizing it for document destruction, for consultation, for guard work, and for investigations.

Anderson Enterprises, Inc. developed legitimate business contracts with agencies of the Federal government and with commercial firms. The provisions of the so-called "Anti-Pinkerton Act" prohibit a company engaged in investigative work from contracting with

the Federal government. In order to protect the commercial cover, it became necessary to form a separate company to handle investigations in response to the requirements of commercial firms. Further, it became necessary to set up notional commercial firms through which to fund MHBOUND for investigative work levied upon it by the Office of Security. At the time this split was accomplished, Anderson Enterprises, Inc. changed its name to Anderson Security Consultants, Inc., with its headquarters remaining in Arlington. The new company was called Anderson Security Services, Inc. and made Los Angeles its home office. As activity expanded and work increased, a third corporation called General Personnel Investigations, Inc. was organized and also headquartered in Los Angeles.

On January 23, 1966, for legal, cover and operational reasons and increased administrative efficiency, Anderson Security Services, Inc. (ASSI) merged into General Personnel Investigations, Inc. (GPII) and remained incorporated in the state of California. Upon the merger, ASSI ceased and GPII succeeded it. The corporate officers and the board of directors of all three companies consisted of the same persons. Subsequently, GPII was sold and new legal straw men were introduced as officers, directors and shareholders. The home office of General Personnel Investigations, Inc. was subsequently established in Falls Church, Virginia in March 1966 for greater administrative efficiency and firmer monetary controls on the projects as a whole, and to greatly enhance

cover viability. Also of particular note, the "home office", with its investigative charter, has been used in the conduct of covert investigations.

In addition to the conduct of investigations, MHBOUND was used in the following activities:

(a) TPOCTONAL - covert monitoring of construction of CIA Headquarters building;

(b) Monitoring of construction of West Gate Research Park buildings, which were to be occupied by Agency components;

(c) TAPIR - covert monitoring of construction of CIA printing services building;

(d) ZULU - surveillance of DOD civilian employees suspected to be potential defectors to Soviets;

(e) STPROBE - testing security effectiveness at domestic DDS&T sites and contractor facilities;

(f) MERRIMAC - monitoring of dissident groups in D.C.;*

(g) AEDONOR - the proprietary hired and paid contract guards for one phase of this activity;

(h) ISOTROPIC - the proprietary was a civilian contractor for the guard force at this installation;

(i) TWOFOLD - was an Office of Security cryptonym for an operation to recruit, process and train undercover internal security agents for the Bureau of Narcotics and Dangerous Drugs;

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* This particular project and other aspects of MHBOUND's domestic activities are treated in greater detail in the Committee's Staff Report dealing with the operations of MHBOUND.

(j) DELICATE - security support for DDS&T project, consisting mainly of badging and entry controls, background investigations, and escort of sensitive material; this is the only such activity currently being serviced by MHBOUND;

(k) PINEAPPLE - physical surveillance of an Agency courier suspected of living beyond his means; also involved a surreptitious entry into his apartment;

(l) BOOTS - physical surveillance of an Agency employee "who maintained contact with people of questionable loyalty"; also involved an audio penetration of the employee's apartment and a mail cover.

Funding for the proprietary is accomplished through a cut-out mechanism whereby the Agency sends U. S. Treasury checks to ten contractors. The proprietary then bills the contractors for "services rendered" in the same amount as received by the contractor via Treasury check. Funding for the other corporations was done through use of notional firms. The ISOTROPIC guard force contract was handled by intra-Agency transfer of funds. BNDD reimbursed the Agency for all TWOFOLD expenses, except for salary of the one staff agent. DOD reimbursed the Agency for all ZULU expenses.

Los Angeles is the only MHBOUND office currently in operation. During Fiscal Year 1975, 2,226 investigations were conducted, 6,125 man-hours were rendered in support of DELICATE, and a total of $551,000 was expended. Purely commercial income averages between $20,000 to $25,000. Much of this comes from walk-in business, which,

for cover reasons, cannot be refused. Over the past few years, this has involved badging operations for private companies, i.e. airlines, schools, etc. The company has never made a true profit. To maintain its image among its competitors, however, its books reflect a small profit on which Federal and state taxes are paid. The office presently employes four staff agents, five contract agents and fourteen proprietary employees. During Fiscal Year 1974, the project expended 2.9% of the OS budget ($551,000 vs. $19,026,530).

MHBOUND, as noted, has provided support to the Office of Security and Agency operators on sensitive covert operations and investigative matters, CI/CE support for components of the Agency, custodial support, courier support on truly covert activity, guard support, special non-government and sensitive inquiries (CI/CE probes through STPROBE), technical and physical support in surveillances and Agency proprietary support. Its commercial capabilities have included: confidential consultants, internal security management, security surveys, counter-audio measures and inspections, development, installation and maintenance of security protective equipment and devices, classified material storage equipment, secure destruction of classified waste, incinerator equipment sales, polygraph examination, investigations (personnel), and industrial undercover activities.

A unique example of its Agency security function was project STPROBE, which utilized both security probes and security pene-

trations. A security probe is a testing of the current effectiveness of all or part of a security system within an Agency or Agency contractor's installation. A security penetration is an internal covert investigation and search targeted at possible subversive elements within a facility who may be engaged in foreign intelligence or acts of sabotage or who by lack of security discipline or gross malfeasance may be weakening the security structure of the project or facility. It is, in essence, counterintelligence against a domestic installation. Eastman Kodak, for example, was the target of a probe. An agent was sent under the natural* cover of a union construction man to Eastman to gain employment as a pipefitter. He succeeded in gaining access to the target, and developed information on the installation and its personnel in surrounding areas of the union hall, bars, cafes, and in other appropriate places around the target area. Similar probes were conducted against Pratt and Whitney in West Palm Beach, Florida, Lockheed Aircraft Corporation in Burbank, California, and other targets in New York, Nevada, and Arizona.

These entities serve a useful function within the scheme of necessary security required by sensitive Agency operations. Their utility, however, as in the case of nearly all proprietaries is relative to policy and "flap" demands. As one Agency commentator phrased it when Newsweek revealed the relationship of L. Lee Bean and Paul Hellmuth of the Boston law firm of Hale and Dorr

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* He was in fact a legitimate tradesman.

with the CIA in setting up proprietaries:

> Proprietaries have been and will continue to be an important tool to achieve selected operational objectives. Their use, however, has been drastically cut back, more because of changes in the international scene and in operational priorities than as a result of embarrassing exposures.

Of course, as has been the case with nearly all other proprietaries, not everyone within the Agency has been satisfied with the mechanism. Indeed, there has been constant review, criticism and internal restraint due to a certain fear and suspicion of entities such as Anderson which are "out there" and not readily accessible to the leash. For example, in June of 1964, the Chief of the Operation Support Division wrote to the Deputy Director of Security (Investigations and Operational Support) concerning MHBOUND's policy and procedures. In terms of operational objectives he noted that they had "created an operational support entity of dubious capability and with ill-defined objectives or purpose." He suggested that they "look this ugly duckling in the face" and see if it could be terminated gracefully or "see if we can nurture it into a productive and responsive bird of acceptable countenance."*

He "received the definite impression that there may be some grey area with regard to the internal channels of command and administrative direction." He noted that there was confusion resulting

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* In many cases these concerns dealt with the inability of the entity to provide adequate cover for itself in order to more adequately fulfill its role. In one instance, the physical backstopping of MHBOUND was inadequate. After this was rectified, one official noted:

> It is felt that this step has strengthened the Anderson Enterprises' cover, both in Boston and Washington so that now the company could withstand any inquiries, except that of an official government investigation.

from lack of a clear-cut distinction "at just what level policy matters may be decided . . ." Management procedures for the project were such that "under the current status everyone may take credit but no one could be blamed." As far as operational capability was concerned he remarked:

> Quite candidly, I am somewhat concerned about the operational capability of Project MHBOUND. It seems, as a result of its Topsy-like growth, to be oriented toward the military and the building trades. Quite candidly, it is felt that the base must be broadened. Further, I am far from convinced that we have yet developed anywhere near the professional status necessary to "sell" this Project as one having unique operational capabilities sufficient to justify its existence. In other words, I am not impressed with the capability as it now exists nor am I sure that we can sell this product and then be assured that it can perform in a satisfactory manner.

His comments concerning the attitude of Agency personnel were not unique to this proprietary, but they are set out here as illustrative of the singular problems these entities pose. His remarks also show the dangers inherent in some areas of this activity.

> It would seem that this Agency, particularly operating components, are insistent upon pursuing an "ostrich policy" when it comes to their operational security procedures. I have personally witnessed almost hysterical reactions to criticisms as well as total rejections of practical suggestions with regard to operational security procedures. Now it seems to me that we are going about this in a very awkward and embarrassing manner. WE ARE, IN EFFECT, ALLOWING THE WRITERS OF SENSATIONAL BOOKS SUCH AS THE "INVISIBLE GOVERNMENT" TO PROVIDE THE NECESSARY INFORMATION AND PRESSURE ON TOP AGENCY MANAGEMENT TO CORRECT GLARING AND STUPID COURSES OF ACTION BEING PURSUED AT THE WORKING LEVEL. I have been the object of considerable personal ridicule due to my stand in opposition to the unrealistic cover and operational security procedures as they relate to certain aspects of (CIA Operational Base) for example.

> IF we had the authority and capability to have made an objective probe of this sensitive activity we may have been able to have surfaced these obviously ridiculous procedures in such a manner that corrective action would have been taken. Now is the time to present the case in light of the abiding fear of publicity currently permeating the Agency. I recommend that we go after the authority to make independent (unilateral) probes and/or probes requested and known only at the very highest levels of the Agency with the results discreetly channeled where they will do the most good. There necessarily follows the unpleasant subject of money. As distasteful as it may be, it is no good to have the authority without a sufficiently large confidential fund set aside and earmarked for independently iniated activities.

He emphasized that if the Agency did not take the above kind of action to monitor its "image" at the operational level, "we will continue to be plagued with the unsolicited and uncontrolled critique through the newspapers, periodicals and books." He critically concluded:

> Further, I challenge anyone to deny that such exposes to date are largely true and usually the result of our own "ostrich policy" and refusal to face the fact that we have operated in some relatively amateurish manners over the years.

Such concerns have extended beyond these operational levels to general issues of propriety and legality. For example, as noted earlier (supra, p. 90) the so-called "Anti-Pinkerton Act" prohibits a company engaged in investigative work from contracting with the Federal government. But

> the Agency and its predecessor organizations began contracting as early as November 1942 with certain commercial, investigating companies to perform investigations and to provide commercial credentials to, and cover backstopping for, Agency investigators.

As of March 1975, the Office of Security had a relationship with three such companies which issue their credentials to Agency investigators and backstop the cover of same. Two of the three have previously "conducted limited personnel investigations" on behalf of the Agency. During that same period the Director of Security asked the General Counsel of the CIA whether the "Anti-Pinkerton Act" prohibited the Office's continued contractual relationship with these three private companies or their employees for purposes of conducting investigations or providing cover, or both. The General Counsel responded as follows:

> I am aware that in fulfilling the responsibilities placed upon your office in support of the Agency's mission, many investigations must be conducted without revealing Agency interest and in some, without even revealing Government interest. Absent the relationships you question, you could not discharge your responsibilities. It is this inability to accomplish your tasks which causes recourse to the Agency's rather broad statutory authority to expend funds as contained in Section 8 of the CIA Act of 1949, as amended. This authority provides

> (a) Notwithstanding any other provision of law, sums made available to the Agency by appropriation or otherwise may be expended for purposes necessary to carry out its functions, including --
>
> (1) personal services, including personal services without regard to limitations on types of persons to be employed, ...
>
> * * * *
>
> (b) The sums made available to the Agency may be expended without regard to the provisions of law and regulations relating to the expenditure of Government funds; and for objects of a confidential, extraordinary, or emergency nature, such expenditures to be accounted for solely on the certificate of the Director and every such certificate shall be deemed a sufficient voucher for the amount therein certified.
>
> It is my opinion that this authority permits the Agency to continue the two practices as set out above without fear of violation of the Anti-Pinkerton Statute.

He closed, however, with the following admonitions:

> There are, of course, other dimensions to the question you raise. As a matter of policy I believe the practices should be reviewed at the highest levels within the Agency and, perhaps, cleared with the Agency's oversight committees. In addition, if one of these relationships became public, it must be recognized that there will be allegations that the law has been violated. On balance, it is my view that these considerations are not so significant as to warrant a termination of the two practices with the three companies. It is suggested, however, that any subsequent, projected association with a detective company or private investigative company beyond the three present companies be reviewed with this Office prior to its initiation.

VII. BEYOND "DOING BUSINESS": PEAK NON-GOVERNMENT SECURITY INVESTMENTS BY PROPRIETARIES ACTIVE AS OF DECEMBER 31, 1974

As described *infra*, MHMUTUAL (the insurance and pension complex) has invested heavily in both domestic and foreign securities markets. Its portfolio runs the gamut of notes, bonds, debentures, etc. But other proprietaries have also used this investment route as a method of increasing capital and insuring adequate cover.

For example, KMJAGGERY is a Delaware corporation located in Washington, D.C., which purchases general merchandise in a manner which cannot be traced to the United States Government. It provides covert procurement for the Office of Logistics (CIA). Its total purchases from January to September 1974 were $437,500. It has no outside commercial business and has five employees. Yet, as of December 31, 1974, that entity had invested $149,000 in time deposits. Another covert procurement mechanism under this same Office is SPECIAL STOCK ACCOUNT #3. This is also a Delaware corporation with an address in Baltimore which purchases arms, ammunition, and police related equipment in a manner which cannot be traced to the United States Government. The company has no employees and is managed by Headquarters officials in alias. As of December 31, 1974, that entity had invested $37,500 in a certificate of deposit.

LPJACK was a travel service which was sold recently to an Agency employee at the time of his reitrement, who had ostensibly owned the firm before but in fact only managed it for the Agency. As of December 31, 1974, that entity had invested $35,000 in a certificate

of deposit.*

LPDICTUM/LPSPICE was an investment company which was dissolved. As of March 31, 1973, it had invested $100,080 in Petrolcos Mexicanos, S.A. Mexico.

HBSANDSTRAP is a Delaware corporation located at Washington National Airport which has provided secure air support for Agency employees and classified pouches between Headquarters and other Agency facilities in the United States. The company has accepted commercial charter flights from non-Agency customers for income and cover purposes. As of December 31, 1974, it had invested $144,000 in a certificate of deposit.

QRTROW was a former proprietary and is now an institute located in Europe which "seeks to influence and encourage moderate and pro-democratic youth leaders and government officials concerned with youth and higher education." According to the Agency

> The Agency withdrew its support from the institute in 1974 and turned over all assets to the management of the organization. In addition, the Agency provided surge funding in the amount necessary to enable the entity to exist in reduced form for about one year during which time the management would attempt to arrange private support.

As of March 31, 1972, that proprietary had invested $50,000 in time deposits.

LPMANTLE is part of the WUTACTIC complex managed by the Cover and Commercial Staff to provide operational support mechanisms for DDO foreign operations. It is a Delaware corporation which is used

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* The Agency today uses this firm for the purchase of airline tickets for travel in support of sensitive projects. It is estimated by the Agency that CIA business represents about 30% of the gross airline ticket sales of the entity on an annual basis.

to collect the proceeds from the sale of Agency proprietary entities and to refund such proceeds to the Agency. At December 31, 1973, its total assets were $650,220 and its total liabilities were $633,897. Total stockholders equity was $16,323. It has no employees. As of December 31, 1974, it had invested $400,000 in a convertible subordinated debenture from the sale of a company and $45,440 in notes receivable. Another company in this TACTIC complex is LPGLITTER. It is a Panamanian company which was used as an investment vehicle for funds reserved for new commercial operations requiring Agency investments. The investment project was terminated and all funds were returned to the Agency. The company has no employees. As of December 31, 1973, it had invested $246,757 in a Security Note of Pepsico Corporation, N.V.

IUQUEST was part of the air support complex of the Agency proprietaries. Substantial assets of it were sold and the entity dissolved. As of December 31, 1974, it had invested $215,000 in a certificate of deposit.

LPPANDA/LPMET is part of the management and accounting complex. As of December 31, 1974, it had $470,000 invested in time deposits.

SCHEDULE I

PEAK NON-GOVERNMENT SECURITY INVESTMENTS BY PROPRIETARIES

ACTIVE AS OF 31 DECEMBER 1974

PROJECT/ENTITY	TYPE INVESTMENT	DATE	AMOUNT
MHMUTUAL	See Portfolio		
LPPANDA/LPMET	Time Deposits	12/31/74	$470,000
IUQUEST	Certificate of Deposit	12/31/74	215,000
LPTACTIC/LPGLITTER	Security Note - Pepsico Corp. N.V.	12/31/73	246,757
LPTACTIC/LPMANTLE	Convertible Subordinated Debenture from Sale of Company	12/31/74	400,000
	Notes Receivable	12/31/74	45,440
QRTROW	Time Deposits	3/31/72	50,000
HBDERRICK/HBSANDTRAP	Certificate of Deposit	12/31/74	144,000
LPDICTUM/LPSPICE	Petrolcos Mexicanos, S.A. Mexico	3/31/73	100,080
LPJACK	Certificate of Deposit	12/31/74	35,000
KMJAGUARO/KMJAGGERY	Time Deposit	12/31/74	149,000
KMJAGUARO/SPECIAL STOCK ACCT. #3	Certificate of Deposit	12/31/74	37,500

VIII: MHMUTUAL: THE INSURANCE-INVESTMENT COMPLEX

a) A BRIEF HISTORY

MHMUTUAL is a complex of insurance companies, most of which are located abroad, operated by the Agency to provide the following services:

a) reinsurance of aircraft damage or liability risks ostensibly insured under commercially issued policies (for cover);

b) extending term life insurance, annuities, trusts and workmen's compensation for independent contractors and agents working for the Agency who are not entitled to U.S. Government benefits;

c) handling escrow accounts* for agents;

d) limited operational support activities, i.e., holding real estate formerly used in Agency operations abroad; ** and

e) investing in domestic and foreign markets to obtain earnings to fund the above.

MHMUTUAL was created in 1962 to provide death and disability benefits to agents and beneficiaries when security considerations preclude attribution to the U.S. Government. The losses during the Bay of Pigs prompted its establishment. From sixty-seven (67) to seventy-three (73) companies operated originally under the Domestic Operations Division and later a board of directors controlled by the Office of General Counsel. This internal board of the project made investment decisions.

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* Escrow accounts are established when an agent cannot receive his full payment from the CIA without attracting suspicion. The funds not paid to the agent go into escrow accounts and are invested under MHMUTUAL.

** The CIA's domestic real property holdings appear as Appendix E.

Lawrence Houston, retired General Counsel of the Agency, testified that his office instigated the establishment of MHMUTUAL. This was because his staff would be the repository of all problems related to the death or disability of a person during the course of his Agency work. These problems were all handled in what Houston called a very "sketchy way" and this was simply undesirable from all points of view. Moreover, when the Agency went into air proprietaries on a large scale there were certain risks which simply could not be underwritten commercially.

> So somewhere in the late 1950s or around 1960, I think I was the one that posed that we might organize our own insurance entities. I had a couple of lawyer friends deep in the insurance business, and I suggest I talk to one of them, and he promptly said, well, it so happens that I have a couple of offshore insurance entities that I can make available to you. And we took a look at them. It looked like they were organized properly for the purpose. They cost practically nothing. They were just shells. But they could be filled out. So if my recollection is correct, we acquired these two as the first step in what became the MUTUAL project.

Simultaneously, the decision was made that if the Agency was going to maintain such a capability,

> they had to have enough body and backstopping so that if a suspicious foreign intelligence outfit tried to investigate, they would stand up under investigation as would any normal insurance outfit. In other words, they had to appear to have financial stability, they had to have names that could stand up and answer questions, and in other words appear to be in the normal business of writing the type of annuities (and) insurance, death and disability.

This concept was totally organized originally then under the Domestic Operations Division. DOD eventually recommended that the complex

be transferred to the Office of General Counsel. This occurred, and it remained there until Director Colby decided in conjunction with Mr. Houston to transfer for operational reasons to the Cover and Commercial Staff. This was done because CSS had the expertise and manpower. Moreover, Mr. Colby took exception to the Board concept because he felt that it diluted the line responsibility by which all other projects were administered.

As the number of insurance companies grew to cover increasing demands placed upon the Agency by more agents, the general fund which was retained to backstop all the needs of these companies grew, and "the question was what to do with your money." Houston explained

> Now, insurance companies are normally in the business of investing their funds, and so this being the normal thing, it appeared to us necessary to preserve the normal appearance of these insurance companies to carry on investment programs for the funds involved, and there were a variety of investments to be considered. You could go into U.S. Treasury Bonds, notes and bills, but actually, from the point of view of insurance business practice, this was very unusual. It would be very, very unusual in the insurance field. Usually some of them would have some investment in bills, notes or bonds, but it was a very small part of their portfolio, and to put it in nothing that that we thought would be a dead giveaway. So we first went in the direction of having a general portfolio somewhat similar to the normal insurance company's investment practices, and I originally recommended that we have the board of directors so that we could have available and demonstrate that we had available the best competence the Agency had internally to pass judgment on what to do with their money.

Because of shifts in the stock market which made it not look as promising as it had been during the 1960s, MHMUTUAL went into certificates of deposit, the Eurodollar market and the bond market.

It was decided to invest, however, only in Eurodollar bonds that were "guaranteed by the American parent company." It was thought that "they were a pretty secure investment." On occasion, "when we got the advice of our economists on the DDI side, we took some government paper that they considered -- foreign government paper that they considered really a good security." Houston became the central figure in this investment scenario:

> More and more I continued on this Board of Directors as giving basic policy advice. We had long discussions on the areas of discussion, what to stay away from, what to go into, what it looked like as far ahead as they might think they could see. And more and more I would make the individual decisions on my own in light of their policy guidance and with the information which my staff in MUTUAL could get from the many friends they now had in various underwriting and investment places on an unwitting basis, who just thought they were customers. For instance, on the Eurodollar bonds, they were dealing with several houses who just thought the fellow was another investor coming into them and would get very detailed and on the whole pretty good advice, which often we could check from inside through some other of our sources. . . .Profits from primarily the interest operations were very profitable, and these built up over the years quite rapidly and were brought into the insurance funding identified as profits for future possible use.
>
> It was always recognized that a policy decision might be made at any time that we had funds excess to the valid backing up of our underwriting, which would be brought back into the government for such disposition as might be appropriate at that time.

In terms of actually providing insurance in the aviation and maritime field, a study would be conducted in each case where insurance was required. If it looked as though normal commercial insurance would handle it, as was the case with most of Air America's needs, then the particular entity would go ahead and procure the normal commercial insurance. If there was something peculiar in the operational setup that preclud d commercial companies from accepting

the risk or if there were security problems, then it would be handled through MHMUTUAL.

> What we would do when it came to aviation and marine, we would go to one of the cooperating companies and see if they wanted the insurance for their own accounts, because we had made arrangements that if there were operations security problems in any one claim, that they could handle the investigation so it wouldn't be a problem if they wanted to take for their own account. If they didn't want to take it for their own account or they didn't want to take it all for their own account, they might then seed back to us what they didn't want. And it would be then underwritten technically out of MUTUAL's account, although they would be the ostensible insurers.

Several of the aviation entities, other than Air America which dealt almost exclusively with regular commercial insurance companies, did nto feel quite secure with regular insurance. They turned to MUTUAL. MUTUAL would in turn offer the risk to one of the cooperating insurance companies. If they would take the risk, they would then negotiate the premium with the proprietary. If they did not want the risk, "then they would seed back to us and we would take the portion of the premium that should come back. Usually it if went through a company, they would take a small underwriting premium to pay their costs, 3 percent or something like that. And the rest of the premium would go back in MUTUAL, if they were actually taking the risk."

In 1970 the Inspector General conducted a survey of the securities held by MHMUTUAL. He concluded that the project seemed to be secure in its operations in the fields of insurance and invest-

ment. The IG looked at the investments from a security (i.e. cover) point of view in terms of MHMUTUAL's operational support function. His concern was that each time MHMUTUAL bought a safehouse, for example, there was the possibility that audio surveillance of the house by the Soviets would lead to a discovery of the purchase mechanism used by the Agency. He reasoned that, therefore, the purchase of such items by the complex was operationally unsound because it exposed the entire complex to compromise if a foreign intelligence agency tracked back the transactions through various corporations. According to the Inspector General, no funds of MHMUTUAL were used for specific projects. What would occur, however, was that a project would transfer funds to the complex which would then disburse them as needed through an appropriate entity. This method left him with major reservations about MHMUTUAL security when it supported sensitive clandestine operations. Thus, MHMUTUAL's provision of cover, funding for active operations, and record ownership acquired for sensitive operations was deemed inappropriate and, accordingly, the IG proposed separating operational support activities of MHANVIL from the instrumentalities of MHMUTUAL. It was to be restrained to the purposes for which it had been established in 1962*

* During the course of the IG inquiry no instances were discovered where MHMUTUAL or its funds were used to influence foreign stock markets or currencies. The Committee has also found no such instances.

At the time of this 1970 review by the IG, MHMUTUAL held a surplus of $9 million. It also earned income from sources supported by public taxation. It appears from the questions that were raised at the time about briefing congressional committees on MHMUTUAL that this was not done, providing a situation where an organization with assets of $30 million has been created and was operating without oversight knowledge or approval. Moreover, because MHMUTUAL was no longer a project after its removal from the Domestic Operations Division, there was no annual allotment and no annual operational review.

Houston indicated that MHMUTUAL had been operating "before we told our committees any detail. I think it was mentioned as a problem that we had to make arrangements to cope with insurance problems fairly early on. But the fact that it was a business and a business of this substance was not done for some time. My recollection is there was not deliberate avoidance; we just didn't get to it." On the question of lack of annual project review, Houston commented that this was "technically correct." But, he added,

> As a matter of practice I would say that MUTUAL was more carefully reviewed in some respects than almost any other project in the Agency in the sense that we had the bookkeeper inside the project who was a finance officer and bookkeeper. The project published at least monthly reports in detail which went not only to me but to Colonel (L.K.) White (the Comptroller) and the Director. These were very detailed reports which often raised questions which went back for answers.

The Inspector General was invited in, according to Houston. In addition, the Finance Office kept its own books in the proprietary accounts branch on MUTUAL. Such reviews were done, he said, "on a constant basis."

> We were very conscious of the amount of money involved and the possibilities of someone trying to, someone yielding to temptation and trying to do something with all of this money.

b) THE CURRENT STATUS

The project currently consists of twenty-six (26) companies of which five (5) are domestic. All of the clients of MHMUTUAL are under non-official cover.** The Office of Finance has indicated that the current net worth of the project is $18 million which is the result of retaining earnings. It was originally capitalized in 1962 with $4 million. A Washington, D. C. lawyer (MHANVIL) is currently the investment manager and he provides day-to-day direction. MHANVIL is a sole proprietorship proprietary of the Office of General Counsel. Total assets are currently

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** MHMUTUAL itself is only for covert non-staff officers of the CIA. In essence, it only works for what would broadly be described as "agents," those not entitled to participate in the CIA retirement plan or in the Civil Service Reitrement Plan. They are primarily foreigners, and usually DDO employees. Those individuals who were formerly known as contract agents and who are now known as independent contractors also participate in MHMUTUAL. In the case of most agents, the CIA contributes 7 percent and the agent contributes 7 percent, in keeping with CIA practice for regular employees. In cases where the agent is well along in years and contributions from the Agency and the agent would not provide enough funds to capitalize an annuity, the Agency provides the initial capitalization; however, approval of this must come from the DDO.

$31 million, most of which are held outside the U.S. The companies do not write insurance in the United States, but rather reinsure with cooperating companies who then sell the risk to the CIA for a percentage of the premium. The policies are written directly abroad. Each of the U. S. companies pays little tax and a proprietary auditing firm audits the books of MHMUTUAL. This method of self-insurance enables the Agency to funnel money where needed in any of its project categories. Currently, 60 percent of the investments are in Eurobonds, 20 percent in off-shore time deposits in U. S. banks, and the balance is in common stocks, debentures and commercial paper of various types. For example, the current breakdown is:

$7 million in time deposits abroad;
$2.4 million in Common Stock (at cost);
$20.8 million in Eurobonds;
$1 million Eurodollar convertible debentures;
$.5 million in short-term commercial paper overseas; and
$.2 million in domestic debentures.

The performance of the MHMUTUAL stock portfolio is noted at this juncture. Comparisons of cost against market value for the years 1970 through 1975 are given first. Following that are the gains or losses on the sales of stock for the years 1963 through 1975.

R1819

STOCK PORTFOLIO PERFORMANCE

Comparison of Cost Against Market Value

Year	Cost	Market Value
1970	$ 3,792,804	$ 3,689,294
1971	1,123,651	1,069,301
1972	2,969,403	2,872,557
1973	2,650,904	1,242,915
1974	2,440,686	699,422
1975	2,440,686	876,507

Gain or (loss) on Sales of Stocks

Year	Gain or (loss)
1963-1969	$ 197,348.15
1970	(19,910.64)
1971	118,943.90
1972	310,346.37
1973	150,447.03
1974	(172,796.04)
1975	-0-
Total Gain	$ 584,378.77

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Included as Appendix D is an in-depth list of common stock purchases from 1971 through September 30, 1975. In addition, there are schedules of portfolio sales from 1964 through 1974.

A look at the Project MHMUTUAL Consolidated Balance Sheet for December 31, 1974 will give some idea of the scale as of that late date. Current assets (cash in banks, premiums receivable, advances receivable, accounts receivable, client notes receivable, rent receivable, interest receivable, and investments maturing in one year) totaled $6,910,891.00. Investments (time deposits, bonds and commercial paper, and stocks at market value) totaled $25,342,772.53. Fixed assets (real estate and furniture and fixtures) totaled $73,084.12. Other Assets (prepaid insurance, recoverable deposits, and other prepaid expenses) totaled $32,682.00. These combined for Total Assets of $32,359,430.45.

As usual, the Project was subjected to an extensive audit for that year.

> The audit included site examination of books and financial records of 12 of the instrumentalities administered by Agency-owned management firms as well as review and evaluation of related records, controls, and procedures at Headquarters. Five instrumentalities administered by Agency-owned management firms are located abroad and will be audited later. Audit of the other six instrumentalities administered abroad by foreign accounting companies was limited to examination of financial reports and such other documentation as was available at Headquarters. These latter examinations provided us reasonable assurance that Agency resources, totaling about one percent of project accountability, are adequately protected.

That audit concluded that MHMUTUAL "continue(d) to be administered in an efficient and effective manner and in compliance

with applicable Agency regulations and directives." Prior audit reports had commented on the need for a revised administrative plan and in accordance with these reports, the audit noted, a "new plan was approved in March 1975." In addition, "(m)inor administrative and financial problems surfaced during the audit were discussed with MHMUTUAL officials and resolved." The audit noted that total income for that year (from interest, premiums, gain or loss on sale of securities, dividends, rentals, professional fees, gain on foreign exchange, gain on sale of property and from miscellaneous transactions) was $4,113,590.00. The total expenses for that year (allocation of premium income to reserve for claims, interest, salaries, rent, accounting fees, taxes, loss on property write-off, legal and other fees, communications, depreciation and amortization, travel, equipment rent, real estate expenses, pensions, dues and subscriptions, directors fees, entertainment, and miscellaneous) were $2,459,260.00. These combined for a net income of $1,654,330.00.

The current Chief/Central Cover Staff has focused on MHMUTUAL in a number of interviews with both the Rockefeller Commission staff and our own. He has suggested that the real question for MHMUTUAL is what should its role and shape be after the termination of the large air proprietaries. One of MHMUTUAL's original purposes was to provide reinsurance for Air America, CAT, Southern Air Transport, Inter-Mountain Air, and the other air proprietaries. With their passage, a reorganization and redefinition is needed.

As to the issue of safeguards against misuse of project funds or insider information by the Agency, the Chief CCS has told the Committee that compartmentation, the honesty of the Chief of CCS, and display of the portfolios to appropriate congressional committees are what have prevented or will prevent such abuse.

Houston agreed with the three safeguards outlined by the CSS Chief. However, he added a fourth:

> When we were investing in stock, I would have the list of stock, the portfolio, reviewed by our contract people, and if I found we had any contract relationship with any of the companies involved, we'd either refuse to -- Well, a couple of times our investment advisor recommended a stock which I knew we had big contracts with, and I told the board no, this involves a conflict of interest. We won't touch it. And if we had anything from the Agency contract office that indicated a relationship, we would either sell the stock or wouldn't buy it.

Houston believes that the complex should continue in some form. One reason is that "assets are few and far between." The acquisition of a board of directors, the establishing of accounts, basic credibility and relations with the jurisdiction in which the entity is located are not easy things to do according to Houston. This creates the "tendency, once you've got something that looks good, to hang on to it." He would recommend in this regard that the Agency be constantly forming new companies and phasing out old ones on a rotational basis so that the same complex would not remain for security reasons.

~~The current Chief of CCS [illegible]~~

> So it's not easy but I still think that they should make the effort. [The Chief CCS] knows my views on this pretty well, and we're all worried about the security of the damn thing. But we don't know another way to do it.

He believes that the current method while not perfect is the best that can be devised. The problem, of course, is that the generation of funds for these companies must literally be shown to be legitimate and non-governmental if the beneficiaries are to be protected. Consequently, if the government were to create an office that would funnel money to these companies without the benefit of investment, this would create the risk that a trace-back investigation by a foreign power could discover that the entity is being funded by the U.S. government. Houston closed by saying that he would invite any controls that Congress would choose to put on the mechanism in terms of insuring propriety.

The Chief of CCS has ~~[illegible]~~ characterized the insurance complex as "indispensable" and as an item for which there is no viable alternative. (1-27-76, Tr. 12-)

3. THE AIR PROPRIETARIES

Lawrence R. Houston, the former General Counsel of the Agency, was involved in the establishment of the first set of proprietaries of the Agency back in the late 1940's and early 1950's. As noted later on in section 10, page , Houston has concluded that proprietaries should be a mechanism of last resort. He asserts that the Agency learned this in part "the hard way and almost all of the lessons involved probably came out one way or the other in connection with a major aviation proprietary in the Far East. Others had there own special problems, but I think the Air America complex had pretty near everything."

The theory of the acquisition of Air America in 1949 was denial of the assets to the Red Chinese. The CIA first arranged advances to the company to keep them going when they were running short of cash in 1949. These advances were used up and were actually credited to the purchase price eventually. The airline at that time had been organized by General Claire Chennault and Whiting Willauer. It was a joint venture with the Chinese Minister of Transport and was called Civil Air Transport. Houston described it as follows:

> This normal aviation organization, this would have no meaning at all, was completely at all, it would have not standing in international law, aviation rights, or any of that. But it worked for what they wanted, which was to take supplies up-country into inland China and then to bring back whatever cargo they could get commercially: tallow, hides, bristles, all that sort of trade, and then they traded that off for their own account. And for awhile the operations was fairly successful, the C-47's and C-46's.

To finance this activity and to facilitate the trading of produce, their lawyer, Thomas Corcoran, had organized a company. That company was known as C.A.T. Inc. In addition there was a Panamanian

corporation which was involved that did most of the funding. There was also an envy known as the Civil Air Transport "to further complicate the picture, at this time Chennault and Willauer were also negotiating with the Chinese CNAC, for the takeover of their planes and equipment." Chennault and Willauer came to the Agency in connection with that operation in the Spring of 1949. At that point the Nationalist Chinese were being "squeezed down south by the Communists and they were really backing down toward Shanghi, restricting their area of operation and consequently the productivity of their commercial venture." Chennault and Willauer indicated to the Agency that unless they got help they would have to go out of business.

The agency held a series of meetings in which it was determined that it had a need for some air transport for some of its operations particularly involving arms and ammunition and consequently the Agency needed a contract with someone.

> And so we entered into an arrangement, I think in about September of 1949 whereby we would advance them, the figure of $750,000 sticks in my mind, against which we could draw for actual use of the planes at an agreed on rate. . . . And we did draw down, I think, all the flying time and expended the $750,000 between September and about January, at which time we suspended any further payments or draw-downs. I think the money was exhausted.

Chennault and Willauer came to Washington about January or February of 1950 and through a series of negotiations, the Agency agreed to advance them more funds, taking at the same time an option to purchase the assets of Civil Air Transport, with the liabilities left to their account. Any unused portion of the advances were to be credited to the purchase price. They then operated through the

Spring of 1950 under this arrangement and Chennault and Willauer "came in in the Summer of 1950 and said again they were in desperate straits for funds." Once again a series of meetings was held at which the prognosis was that the operations in the Far East would have a continuing need for secure airlift and also, there was a general estimate that the loss of this airlift to the Chinese Communists would give them a considerably greater advantage than then possessed because they had almost no airlift of their own at that time. "The Agency then made the decision that they would exercise the option given there was no objection otherwise."

The Agency felt that it was necessary to get the concurrence of the Department of State. Frank G. Wisner, at that time the Head of the Office of Policy Coordination (OPC) which was responsible for conduct of covert actions as opposed to clandestine intelligence, and Mr. Houston visited Mr. Livingston Merchant, who was Assistant Secretary of State for the Far East.

> He and I went to see Mr. Merchant and explained the situation. And Mr. Merchant reminded us that it was basic U.S. policy not to get the government in competition with U.S. private industry. But under the particular circumstances, in particular as there was really no U.S. private industry involved in the area, and they agreed it was important to divide the assets to the Red Chinese. State would go along on the understanding that we would divest ourselves of the private enterprise as soon as such a divestment was feasible, and all of the circumstances that might obtain.

Of course, the divestiture of these entities did not actually occur until 1975. And, indeed, some of the entities still as yet have not been divested. Mr. Houston noted, however, that:

> We did not disregard that guidance because after very considerable use of this asset during the early '50's, there was a question of whether to continue it, and the matter was taken up in the National Security Counsel. And Allan Dulles, as Director, opposed that we continue the ownership and control of the assets of Air America, as it then was known including the subsidy as needed. And there was a subsidy at that time. It was about $1,200,000 per year.*

This consideration by the National Security Counsel as to whether or not to continue to retain this asset and Mr. Dulles' recommendation that it be retained occurred in 1956.

During this period of time the business of the air proprietary consisted almost entirely of Agency cargo carriage under contracts which were usually using a military designation. The company was not organized, according to Houston, to fly common carriage and had no status in the international air business.

The evidence indicates that during this period of time, there were two struggles going on. One was where control should lie in the Agency and the other was the policies to be applied to the operation of the company itself.

> The struggle within the Agency ranged all the way from sort of quiet management discussions as to what was good management, to sometimes rather vociferous auguments of whose in charge here. And the operators always said, well, we need to call the shots because it's our operation. . . . And this is what we were running into all the time, of red hot operators opposed to what we would consider good management.

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*"Houston indicated that there had been a subsidy running to the entities since 1949. "$1.2 million represented about the maximum subsidy given until, I believe, about 1958 was the turning point, and from 1958 on, there was no subsidy as such that went into it." The reason for that, of course, was that the air complex had become "money-making."

The management of the air proprietary at this time was in the OPC structure and was therefore responsive to operations. An example of some of the problems which were created as a result of this is the acquisition in August of 1950 of the entity. Houston was participating in the negotiations. He had been invited to do so by Frank Wisner.

> OPC was a curious organization. Determined as being attached to the Agency for quarters and rationing with policy guidance from State, which was an impossible situation. Very nice fellows were doing the negotiating with Wisner -- Frank Lindsay and Chad Breckinridge, who is now dead. Frank Lindsay has been head of ITEK and quite unknown to me, when they made the agreement to purchase carrying out the option, they gave the vendors the right to repurchase at any time within two years. And I thought this was really inconsistent with our whole position. And during the next two years they negotiated out that repurchase agreement and in its place substituted an agreement to give them a first refusal, if we were to dispose of the airline. That first refusal plagued us for years. They use to make all sorts of extraordinary claims under it and it was never exercised and eventually it was sort of forgotten when Chennault and Willauer died. It ran to them personally, whether it ran to them and two others personally, and they all are dead now. But this shows a part of the learning curve, which was thing we were going through. It also became clear that the organization of the airline was really impossible, it's sort've semi-formal partnership with the Ministry of Transportation or the Ministry of Communications (of the Nationalist Chinese Government).*

That basically describes the preliminary situation from the period 1950 through 1954. It was in 1954 that George Doole first came onboard as a consultant. Doole and Houston went to the Far East in the summer of 1954 to observe the operation. "George went out there

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* The Nationalist Chinese had by this time retreated to Taiwan, they maintained a maintenance base tied to Hainan "The maintenance base at that time was on a LST and a great big steel barge. And we brought the LST and the steel barge up to Kiaoshung, and it was really extraordinary what a maintenance job they did on what was almost impossible facilities. I went down and was enormously impressed by the difficulties and how well they had overcome them," noted Houston.

specifically to look at the organization of the Airline." In this regard, it is noted that at the time the Agency purchased the Airline it had formed a Delaware corporation to buy it which was first called the Airdale Corporation, counsel for which was Brackley Shaw. Shaw and Doole were both very concerned about the technical organization or lack of it, of the operation. Doole demonstrated to Houston

> to my satisfaction that it was an absolute situation and that no one out there had the slightest understanding of the problem or what they were up against, or wanted to do anything about it (in terms of airline management).

As a result of this Shaw and Doole planned the organization which they thought was necessary for the future of the operation. Hugh Grundi was installed as President of the corporation by the end of 1954. Management responsibility internally was given to Lyle Shannon "who was a management type, although he was assigned to the DDO, or by that time it might have been the DDP."

The upshot of this review by the Agency was that the theory of running the airline was that it would be managed by management to be responsive to Operations "but not managed by Operations."

In order to improve its cover "the Chinese not only were willing, but at that time wanted it to be the airline that showed the flag of China." This was done on overt records through Civil Air Transport Company, Ltd., which was the subsidiary of Pacific Corporation. Pacific Corporation held title to 40 percent of the

equity in the corporation and 60 percent of the equity was ostensibly owned by the Chinese, who gave deeds of trust to the Agency for their shares. This overt arrangement demonstrated for purposes of international law that the company was majority-owned and controlled by Chinese. The Chinese continued to press the company to get into the international common carriage field. The company had several DC-4's and began modest operations between Hong Kong, Taipei and Tokyo. They graduated to DC-6's, and it was at this time that the Agency first got into the question of competition with U.S. industry. Northwest was then flying to Tokyo and Seoul and to Manila, and was trying to obtain rights into Hong Kong. Don Nyrop had noted the Agency's interest in this area when he had been Chairman of the Civil Aeronautics Board in the late 1940's and the early 1950's. Houston told the Committee:

> He (Nyrop) became head of Northwest, a very tight manager, a very capable fellow, and he used to complain that we were interfering, we were taking passengers off his airline, and we would go to him and say, we have to keep the airline in this business because the Chinese say they need an international airline. They're not ready to start their own yet. And it is necessary to its overall cover status as a going commercial concern.

By 1959 Mr. Nyrop was complaining that the Agency was doing too much. Finally Nyrop decided to complain to the Civil Aeronautics Board and the Agency agreed to place it before that Agency for a decision. A meeting was held with the entire Board, at which time Nyrop was able to make his case "for the fact that he was a private industry, he should not be interfered with by government competition."

The Agency explained its situation, the cover need, the Chinese pressures, and the fact that they were keeping the carriage to what they thought was a minimum that appearances could stand.

> And it ended up by one of the members of the Board turning to Nyrop and saying, Don, you ought to be glad that you don't have a really good, reliable competitor in there. He said, If you were being competed with by private business, you'd have real headaches. You ought to be real glad that it's not worse than it is. And that's the end of that.

Houston conceded that some passengers were going on basically CIA planes instead of Nyrop's Northwest planes. The impact, however, was minimal. Moreover, the CAB in this proceeding was advised of the dilemma. They did participate in discussions with both the Agency and the particular business entity that was making the complaint, and the CAB, after hearing both sides, "came down on the side of the Agency after making a reasoned judgment."

By this time the airline's commercial international business was not making money. A maintenance contract work, which was being done at Taiwan, however, was "normally a money-maker, and this was primarily, although not exclusively, with the U. S. Air Force."*

There were management problems in terms of the maintenance aspects of this operation. This originally stemmed from the fact

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* The LST and barge which had previously been used for maintenance purposes became inadequate. Therefore the Agency built a plant in Taiwan "that is now there but has been recently disposed of to E Systems, and a very good plant it was." E Systems' role in the acquisition of proprietary assets is detailed later.

that individuals out in the field are not particularly astute at costing their contracts. Doole gave excellent advice in this area. Moreover, Doole was quick to advise when an operation is bordering on not being responsive to the demands of good management. Houston cited one instance when Doole replaced a controller in the corporation who was very able but "had his own ideas of bookkeeping and controls." Doole insisted that the corporation put in bookkeeping and controls completely consistent with U. S. CAB and FAA practices. And of course the maintenance contracts with the military were audited constantly by the military audit teams that were right in the plant.

By this time the Agency had organized an exemption from the Contract Renegotiation Board on the grounds that if the renegotiation personnel became too involved in the business, they might recognize that this was not a straight commercial operation and discover the fact that the CIA was involved. The Agency went to the head of the Contract Renegotiation Board and got a letter from the Department of Defense asking for an exemption on what the Agency and the Department considered "perfectly legitimate grounds." Indeed, there was a basis for exemption in the Renegotiation Act if the business was entirely overseas, which was the case with this airline. And so, the exemption was granted on that basis. The Agency was concerned, however, by the fact that it had in principle made a type of profit, over 40 percent on these Air Force maintenance contracts, that might have well have been the subject of re-

negotiation, had it not been subject to the exemption. "So the question was what to do about it. And finally, we made a voluntary repayment against part of the profit on that contract to the Air Force."

As noted previously, the commercial airline aspect of the operation was not making a profit and in fact operated mostly at a loss. Indeed, there were periods of time when the C-46's and C-47's cargo carriers were very busy on either CIA contracts, the Korean War, Diem Bien Phu, and other paramilitary aspects. There would be periods in between these activities when there was nothing for the airlines to do. Nonetheless, the airline was still saddled with expenses such as crews' salaries and maintenance of the aircraft which sat on the ground.

> So George posed, and we finally organized, the stand-by contract, which was an apparent military entity on Okinawa. It was our entity, but it had a military designation. I can't remember the name for it. And that entity contracted with Air America for so many hours of cargo stand-by to be available any time on call, and that they would pay so much for that capability being maintained. . . so that is how we kept the subsidy going to maintain them during periods when there was not profitable flying.

Another area of concern was the question of the relationship with the Internal Revenue Service. From the very start, the company management was informed that they would be required to pay the appropriate U. S. taxes, and while there were the usual business arguments about whether certain items were appropriate for taxation and whether certain deductions should have been granted, the rela-

tionship maintained with the IRS was basically a normal one. Houston recalled that in the mid-50's the company, Air America, received a notice that they were going to be audited by the IRS. Company officials came to the Agency and indicated that this might pose a problem in terms of security. The Agency went to the Commissioner of the Internal Revenue Service and indicated that they would like to have the Commission conduct the audit and have the audit done by a team on an unwitting basis to see what they could find out. "We thought it would be a good test of the security of our arrangements."

> They put a very bright young fellow on and he went into it. They came up with discrepancies and things that would be settled in the normal tax argument, corporate-IRS argument, and all of these were worked eventually, and then we went to this fellow and said, Now, this was owned and backed by the CIA, the U. S. Government. What was your guess as to what was happening?
>
> And he said, Well, I knew there was something there, and I thought, what a wonderful asset it would be for the Russians to have, but I came to the conclusion that it was Rockefeller money.

Thereafter, the IRS would be notified if it began to conduct an audit on an Agency proprietary, and the audit would be discontinued.

As the operations of Air America developed the problem of large cargo carriers arose. In the early days of its operation the airline was using C-54's, which had an extremely limited range but were able to perform notwithstanding under demanding circumstances. Discussions proceeded during that period about modernizing the equipment and the Agency, through the proprietary, bought DC-6AB's, a conversion of the DC-6, which had large cargo doors installed in it. They,

however, did not maintain any jet equipment at that point. This cargo system which they developed was getting heavily into a military air transport contract system. The system was first known as MATS, and then it became MAC.

> They got MATS contracts, and Air America got these, and these were very good to keep a constant utilization at a good rate, the MATS rates were usually good, because the policy was not to do competitive bidding for the lowest bidder because then you got the poorest service, but give good rates to the carriers, and then require the carrier belong to the Civil Reserve Air Fleet.

In 1956 MATS changed its policy and required that bidders on the contracts to be certificated. Of course, there was no real way that Air America could become certificated and so the Agency decided to purchase Southern Air Transport. While it was technically a separate entity, not involved in the Air America complex, it was actually an integral part from the management point of view, in that all management decisions were centered again in George Doole and the advisory team in the Agency. MAC eventually also decided to require that bidders not only have to be certificated, but had to have equipment qualified for the Civil Reserve Air Fleet and this meant jet equipment. As a result the Agency went into the acquisition of Boeing 727's. Mr. Doole eventually convinced Boeing that they should modify the 727 to enlarge the ventral exist, which was already in the plane, so that the plane would then have a large airdrop capability. Boeing did so modify the plane and it proved entirely useful for these purposes. "So the theory was that the

727's would be used on MAC contracts to be available on an overriding basis if needed for some major national security operation.

> They were used, usually when they had spare time. To my recollection, they were only called off once, off the actual contract time, and this was for a possible use which didn't go through. But the White House asked if we had the capability to move something from here to there, I think from the Philippines to somewhere in Southeast Asia, I don't recall, and so they sent word to management that they wanted a plane available at the earliest opportunity at Clark Field. They pulled one of them off the MAC contract and had it available, I think ready to go, in twelve hours, all set for the operation. And the operation was never called. But it showed what the capability was. And what they had to do was get substitute service for the MAC contract.

During the late 1960's several Chinese airline enterprises started, both of them on quite a small basis, but one of them which became CAL had official backing. This occurred while the CIA's proprietary was still flying under the flag of China. With the establishment of these indigenous Chinese nationalist airlines which would fly these routes, the Agency began to plan reducing its international carriage work. It decided it would keep the MAC contracts because this did not bother the Chinese. There was in fact no competition in this area. But plans were started to reduce the international common carriage. This Agency proprietary, Civil Air Transport Company, Ltd., which had been organized in 1954, had the right in international air auditing to negotiate for air routes. That was the entity that therefore did the common carriage. Thereafter, Air America did the American contracting followed on then by Southern Air Transport, due to its certification. Southern was

brought on to perform the MAC and MATS contracts with planes leased from Air America, which included 727's. Southern Air Transport actually owned one 727 and leased two from Air America.

Houston noted that it was at this time that an internal decision was made "we probably couldn't justify this major airlift with the big jets, and so we started giving rid of them. See, they had no utilization to speak of down in Southeast Asia. A couple of supply flights went into India, and I think we used prop planes for that, to my recollection." So the Agency began to phase out the 727's. This, of course, led to the decision to divest the Agency of Southern Air Transport and eventually of Air America.

Internal management problems were assisted in 1963 by the establishment of an executive committee of the board of directors of the Pacific Company, Air America and Air Asia. The overt board of directors in New York City passed a resolution organizing an executive committee, which included Mr. Doole and two other directors. Covertly, the Agency put with that executive committee some of its representatives. This resulted in management and the Agency being represented on the executive committee of the Board, and permitted the viewpoints of management, Agency and the operators to meet in this executive committee to consider policies and make actual determinations and give guidance to the company. Houston indicated that this mechanism was extremely effective in controlling the company.

> So I think for the last, oh, fifteen, eighteen years, the proprietary management system was on the whole pretty effective fromthe Agency point of view. I think we knew what was going on. I think we were able to get things up for decisions, and if we couldn't resolve them at the staff level, we would take them up to the Director for decisions; quite different from the early days in the early 50's that I described, and the operators at least made the claim that they had the right to call the tune.

During this period of time Operations people

> were getting themselves involved in the acquisition of aircraft and which were getting awfully damned expensive at this time, and separate projects were going after some of this expensive equipment without consideration of what might be available elsewhere to the Agency by contract or old aircraft. And so the Director of Central Intelligence set up EXCOMAIR, of which I was Chairman, and had representation from both the operation and management and finance out of the Agency, to try and coordinate the overall control and acquisition and disposition of aircraft.

Indeed, a February 5, 1963 memorandum entitled "Establishment of Executive Committee for Air Proprietary Operations," noted that the Committee was "to provide general policy guidance for the management of air proprietary projects, and review and final recommendations for approval of air proprietary project actions." Houston indicated that EXCOMAIR "was sort of an amorphous group" which tried to focus on the question of whether it reviewed the needs first and then came up with recommendations on the operational solutions, or whether the operators came up with a solution and put it through EXCOMAIR." Houston noted that EXCOMAIR worked on a very informal basis because "I knew all these people well, and I said 'Let's get together and sort these out.'" He indicated that EXCOMAIR was

reasonably effective in getting overall coordination. It was responsible for making a thorough inventory of all the equipment that the Agency had in the aviation field, and by and large was able to keep track of who needed what and whether an asset was available that could take care of a problem without the necessity of acquiring a new asset.

According to Houston, a general shift in thinking at the Agency occurred between 1968 and 1972 on the desirability of their holding substantial contingent capacity of airlift. The records seem to indicate that Mr. Houston apparently convinced the Director in the early 1970's that the capacity should no longer should be retained. Houston commented on this assessment as follows:

> Through what knowledge I had of the utilization of the various assets, it seemed to me that utilization, particularly of large assets, that is, heavy flight equipment, was going down to the point where there was very little of it. Consequently, we couldn't forecast a specific requirement. Such requirements as you could forecast were highly contingent. But I also remember a couple of times putting the caveat into the Director that with a changing world and with the complications in the aviation field, once you liquidate it, you could not rebuild, and so you ought to think very, very carefully before getting rid of an asset that did have a contingent capability.

X: ISSUES POSED, CONCLUSIONS, AND RECOMMENDATIONS

The preceding sections provide a general picture of the nature, extent, purpose, function and problems of proprietaries. Not unlike other areas of our inquiry, the issues raised were not simply black and white. They were, rather, grey in nature. During recent years, particularly at the time of the Vietnam War, serious questions were raised about this proprietary capability. Much of the accompanying criticism stemmed from a lack of understanding of their role in the scheme of both United States foreign policy and intelligence. Some of the criticism stemmed from the suspected entrance of some proprietaries into areas where they were in apparent competition with legitimate business interests, such as the airline industry. It is not unusual that there would be misunderstanding since much of what would have explained the proper role of these entities had to remain secret for innumerable reasons. But the Committee has not been stymied by that same embargo and has had a broad look into these operations.

In general, these mechanism have been operated with the utmost concern for legality, propriety and ethical standards. What slippages have occurred were in the field and generally in the area of air operators, not management. Moreover, their use and past expansion was a direct result of the demands placed upon the Agency by Presidents, Secretaries of State and the policy mechanisms of government. This is particularly true of the large air proprietary complex which was used to support paramilitary operations in Southeast Asia. The only exception to this is the investment-insurance complex which was established on Agency initiative to fill a pressing need.

A. An Overview

Using broad authority under the National Security Act of 1949, the Directors of Central Intelligence have established Government-owned business enterprises, foundations and quasi-business enterprises ("notionals") to serve a variety of intelligence and covert action purposes. Chief among those purposes have been:

1) Cover for intelligence collection and action projects. Commercial firms established in foreign countries have in the past and continue to provide plausible reasons for the presence of CIA case officers. Agency-funded foundations (e.g., the Asia Foundation) served as conduits of funds to scholars and groups doing research supporting U.S. foreign policy positions.

2) Extension of Agency influence and information network in overseas business community. The very act of establishing a firm -- e.g., an air or shipping firm -- requires banking, insurance, and other services that entail support, communications, and intimate business relationships with the bonafide American and foreign commercial world. In turn, this entails at a minimum the clearance and access of outside top management into Agency business; the relationship on occasion can entail using the Agency's commercial contacts for information or assistance.

3) Provide supporting services for covert operations. In paramilitary operations, airlife and sealift by Agency-owned carriers has many advantages -- flexibility, ability to implant photographic equipment and other sensors, etc. CIA agents, engaged in hazardous business ordinarily uninsurable, can obtain commercial insurance at standard or subsidized rates via MHMUTUAL, a conglomerate

of some 26 CIA-owned companies. In country locations where physical contact with the nearest CIA station is not operationally discreet, proprietaries can provide pay outlets and other administrative services for CIA personnel and agents. On occasion, firms based in locations with permissive corporate laws and regulations -- Liechtenstein, Panama, Delaware -- can engage in many activities unrelated to their charters. For example, insurance firms can acquire real estate surrounding targeted embassies on a non-attributed basis.

4) Actual conduct of covert action. In establishing the "radios" (Radio Free Europe and Radio Liberty) in the 1950's, CIA acquired a means of directly influencing populations behind the Iron Curtain. These, of course, were eventually disposed of and placed under the aegis of the Department of State, but related enterprises, such as the book distribution program, which had operated under radio sponsorship, continued within the Agency framework.

5) Outlets for private investment. The Agency would deny that this is a purpose of proprietaries. Agency officials state that the standing policy is to prohibit the investment of operational funds of the CIA into private fields without explicit DCI authorization. Actually, the existence of proprietary enterprises which, on occasion, return sizable profits, affirms that private investment has indeed been a widespread Agency policy. Moreover, the Agency specifically has authorized MHMUTUAL to act as an institutional investor for its own and any other Agency proprietary. So the question really is one of definition and shading.

B. Size of U.S. Financial Stakes

The size and variety of U.S. Government financial stakes in CIA proprietaries has already been described in great detail. The attached Table I gives an overview of proprietary income and expenditures over the years. Some 450 proprietaries have been created over the years with 20 presently active (See Table II.) The largest sixteen proprietaries received about 80% of U.S. investment (i.e., subsidies). Accordingly, most proprietaries are shown to be small-scale operations. In many cases -- the so-called "notionals" -- the overseas proprietary actually conducts no business at all; it simply has a commercial charter, staff, and cover arrangements for Agency collection and action projects.

Table I also shows that proprietary income consists of a mixture of CIA subsidy and income. In some cases, the outside income is from sources outside the U.S. Government income -- e.g., Air America has received income for aircraft maintenance of KLM airliners in Southeast Asia. But for the most part, proprietary income is in the form of "cross-orders," from CIA and other Government Agencies. . For example, the CIA paramilitary project in the Congo placed orders for aircraft engines and pilot services with Intermountain Aviation, Inc. As an example of order placed by other U.S. Government Agencies, AID contracted with Air America to carry rice shipments in Laos. In this sense, many proprietaries are analagous to what are called "intragovernmental funds" or "industrial funds" in traditional U.S. Government budget and accounting terms.

Table I shows, and as we remarked previously, that compared with earlier years, the size of proprietary expenditures has markedly declined. The potential for future expansion is nevertheless present.

Indeed, new proprietaries have been formed within the last several years.

In terms of U.S. budgetary impact, Table I indicates that proprietaries do not add much new capital to CIA available resources -- i.e., while they have a very large expenditure level and momentum over the years, the "cross-order" phenomenon means that most of these expenditures originated in CIA and other U.S. Government appropriations and that net profits generated by outside business or investment have been relatively small. On the other hand, another way of interpreting the figures is to observe that nearly half the $1.6 billion gross income of CIA proprietaries has been supplied by sources outside CIA.

Table II shows the pattern of income, expense, and net U.S. investment for the twenty largest proprietaries now active, reviewing their financial experience in the twelve months preceding June 30, 1975, or the indicated reference date. The two biggest proprietaries, Air America and MHMUTUAL, are seen to dwarf the others. Air America will be phased out by June 30, 1976, ending CIA's owned airlift and returning an estimated $20 million to the U.S. Treasury. MHMUTUAL will continue.

Today, the CIA operates 45 major proprietaries, of which 25 are in the process of liquidation. The 16 biggest proprietaries did a gross total of $4 million business in 1975, compared with an average volume of $75 million annually in the heyday period of proprietaries, 1967-1973, exclusive of CIA subsidies. On the subsidy front, the contrast is equally striking: no net subsidy in 1975 vs. $26 million annual subsidy in the 1967-73 period. Put differently, if these sixteen biggest proprietaries had operated throughout the 1967-1973 period at the level of gross income of all

kinds realized in 1975 ($4 million), the total gross income would have aggregated $116 million. Actually, the CIA reports that for this for this period gross income aggregated at $1,606 million. By this measure, CIA's biggest proprietaries are shadows of their former selves; their annual gross income of $4 million is about one-fourteenth of the average gross annual income of $55 million during the 29-year span. Shrinkage would be even greater if these figures were adjusted for the effect of inflation.

The chief impact is decline of the bigger air proprietaries. The Agency estimates that of some $761 million of outside income, at least $658 million was generated by Air America ($559 million) and Southern Air Transport ($99 million), in the period from incep-to 1975. As late as 1974, these two airlines were garnering some $50 million in outside contracts. With their disposal, total CIA proprietary annual outside income in 1975 therefore shrinks to the cited $4 million level. Most of this residual is represented by MHMUTUAL, the insurance investment complex, where Agency investment are generating an outside income of about $3.5 million annually.

In programmatic terms, this contrast of today and yesterday reflects the decline of paramilitary operations in Southeast Asia. Large volumes of outside orders by Defense and AID, along with sizable levies by CIA components and some maintenance and passenger income from commercial operations, had been generated by a covert war. In turn, these operations had their echoes in Agency air support for the Congo, Cuba, and other areas. Looking toward the future, will new air proprietaries be established? The CIA thinks

not -- but the matter is not resolved as discussion below indicates. Ultimately the program question is whether there will be future U.S. involvement in covert wars -- and whether, if so, some substitute for CIA-owned air support can meet the operational requirements of secure, well-maintained local aircraft in place, with responsive schedules and capacity to gather a limited amount of signals and imagery intelligence. The Chief of CSS ventured the possibility that third-country assets could be used. Another possibility is use of U.S. military aircraft, overtly or "sanitized".

One thing became clear: CIA sees itself as entering a different era of proprietaries. It has rejected the long-held doctrine of "stand-by" capability -- i.e., the notion that it is worth investing considerable capital and operating resources in airlift, sealift, and other assets primarily targeted toward contingency requirements. Instead, assert the Agency representatives, CIA is keeping today's and tomorrow's proprietaries strictly centered on current operational tasks. The test of retention is the utility of a proprietary in carrying out assigned roles instrumental in approved Agency projects.

This concept can be examined by listing the twenty major proprietaries which the Agency says will survive into the post-1976 time frame:

Code Name	Latest 12-mo. Earned Income ($000)
LPBERRY	$43
LPROE/PIKE	139
PDPORTAL	5
BASTE	($1,250 subsidy)
BASIC	(1,126 subsidy)
PDLEDGER	102
PDDYNAMIC	35
TENURE	($199 subsidy)
TERRACE	(76 subsidy)

VWCADENZA	(36 subsidy)	
MHBOUND	(432 subsidy)	
KMJAGUARO/JAGGERY	809	
QRMYSTIC/CYNIC	($10 subsidy)	
WUDIRK	0	
XIPHOID	($ 191 subisdy)	
BACH	(50 subsidy)	
KNOX	(50 subsidy)	
LPHOCUS	22	
LPBYZAS/B	2	
LPPANDA	21	
CHAIR/A	(4 subsidy)	
REMEDY	21	
MHMUTUAL	(consolidation of 21 firms)	$3,560
LPSUGAR	34 (plus $35 subsidy)	

The above listing covers only the 20 biggest proprietaries which currently operate and which will survive liquidation. It excludes 25 major proprietaries currently operational but being phased out -- such as Air America and other airlift.

What does the whole picture of currently operated proprietaries look like? How many and by what major types?

The Numbers of CIA Proprietaries, by type, as of July, 1974 are:

Operating proprietaries (includes 21 props. in MUTUAL insurance complex)	71
Non-operating proprietaries	38
Devised facilities	31
Devised facilities/Notionals ("DFN"'s)	61
Subtotal, externally registered	201
Notionals -- no external registration; Identity and financing wholly within CIA control	215
Grand total, current proprietaries	416

Generally, the notionals have increased in number by about 30% since the current CCS chief's takeover of Cover operations in 1967. This reflects a policy of increasing the number of cutout arrangements to increase security -- i.e., reduce likelihood of outside discovery of the identity of agents or case officers working under cover of the end-point notional by introducing intermediate notionals for payments or identity backstops.

What does this table tell us about basic distinctions of one type of proprietary from another? First, it indicates that external registration divides the pot in half. Those which have some form of legal standing with U.S. (State, local) and foreign corporate regulatory and tax authorities are subject to external governmental scrutiny. This occasions additonal expense and manpower to assure that in all respects this group of proprietaries behaves in accordance with local law and commercial expectations. The second group -- the notionals -- exist only as names on doors and phone directories and stationery, with backstopping for identification provided by Agency switchboards, mailstops, and check issuance.

The next level of distinction is within the class of legally registered proprietaries: those which carry on a commercial income-producing operation and those which are simply cover arrangements, with at most a bank account and an attorney backstopping calls and mail. The latter are shown in the table above as "devised faciltiies" and "DFN"'s.

Within the class of commercial, income--productive proprietaries, there is a distinction between those which are wholly dependent upon

CIA income in the form of orders placed and/or subsidies; and those which have mixed outside and inside income.

Even for those with mixed income, it is possible over the years to distinguish those which have outside income wholly within the U.S. Government (i.e., a mix of CIA-derived income and income from other Government agencies) and those which have both U.S. Government income and income from private contracts.

C. Visibility in the Budget

Accountability to the President and Congress depends in budget review upon the extent to which the Federal agencies' budget review upon the extent to which the Federal agencies' budget requests provide enough information to make possible well-formed judgments. Therefore, Circular A-11, issued by the Office of Management and Budget, prescribes the financial schedules and analytical and explanatory supporting data which all Federal agencies must provide in their budget submissions, consistent with the Budget and Accounting Acts of 1920 and 1950 as amended.

The Central Intelligence Agency regards itself as subject to these prescriptions. The Agency limits its application of this principle, however to provision of such A-11 materials as OMB and the Congress ask for.

With regard to proprietaries, this policy has resulted in near invisibility of proprietaries in the CIA budget submission. Circular A-11 requires agencies to provide schedules and narrative for each public enterprise or intragovernmental fund. The utility of such data is to reveal all sources of funding, purposes and

levels of expenditure, and at least approximate indications of performance through comparisons of past and proposed funding by activity. As applied to proprietaries, the CIA, perhaps, should have been providing a whole family of schedules for the proprietaries which actually do business (i.e., excluding "notionals.")

Then, there is the question of the program impact of proprietaries. Table I indicates that proprietaries in fact have been heavily involved in CIA intelligence collection and covert action. None of this is shown in the CIA budget submission. Yet a bona-fide policy review of the budget requires programmatic judgments of the necessity and appropriate use of proprietaries in overseas areas.

The Angolan question has brought into sharp focus the role of the CIA's Contingency Reserve. All U.S. aid to forces in Angola came from this fund. The only place in the budgets of CIA where proprietaries have taken on even a limited visibility is in those years when supplemental financing was needed to establish or strengthen a proprietary. The budget then shows, tersely, that for a past year or for completed portions of the current years that Contingency Reserve drawdowns had been made for such purposes. For example, one past budget showed a certain amount for "RFE," meaning a subsidy for Radio Free Europe, but providing no justification materials. In turn, this practice reflects the unwritten, post-hoc nature of the Contingency Reserve financing process -- in effect, an Executive Branch supplemental in which Congress is informed after the OMB has acted. The budget does not normally indicate Agency intentions to create or establish a proprietary in the

budget year ahead. For any other Federal agency, the notion of establishing a new publicly owned enterprise without advance notice to the Appropriations and substantive committees of Congress would be proscribed.

For the small-scale proprietaries, those which require small subsidies to get underway, CIA is able to launch them without supplemental financing -- i.e., within its regular budget -- and, therefore, these remain completely invisible in the Agency budget submission.

D. Some General Considerations

a. The relationship of utility to size: The evidence established a dilemma faced by CIA planners who recognize that proprietaries can sometimes be most effective operationally when they are large; indeed, as in Laos, there can be a thrust toward enormity imposed by the very nature of the operation. The dilemma is that large size conflicts with deniability: In areas of the world or types of activity where there is little commercial appeal or few operating commercial firms, where would large-scale enterprises get financing but from the U.S. Government? Laotion operations actually could not be covered in the end. The experience suggests that proprietaries may have limited utility for paramilitary operations in the future.

b. The factor of competition with private enterprises. Do CIA proprietaries of the income-producing class unfairly compete with private U.S. businesses, both with regard to their Government financing and their secrecy? Is the utility to the Government of

such a kind and of such magnitude that CIA proprietaries should be retained regardless of their competitive impact? Generally, the CIA believes that CIA operating proprietaries do not compete with U.S. private enterprise because they tend to do things which the latter are not equipped, motivated, or staffed to perform. For example, CIA proprietaries purchase weapons and foreign armaments and technical devices; conduct security clearances; purchase real estate; insure uninsurable risks; train foreign policy forces; run airlines in remote areas or on commercially unattractive routes. Would private enterprise do any or all of these things; It is true that private enterprise does a lot of similar activity under contract to the Government, including highly sensitive contracts for CIA in technical intelligence collection and research and development. If CIA scrapped its proprietaries and coopted private firms, suitably cleared, would this be more desirable in policy terms? In economy? In operational flexibility?

c. Relative scarcity of commercial and official cover. The continuing push of CIA for notionals reflects the scarcity of U.S. Government official cover in many areas of the world, the developing desire of U.S. companies not to cooperate.

Some question concerning profits have been raised. Does proprietary profit constitute a significant add-on to the resources available to CIA? How is such profit treated in the budget? How is it controlled? How can the Congress (or the President, for that matter) be sure that proprietary profits are not siphoned off to accomplish projects not countenanced by the regular CIA budget?

First, profits (defined as net income to a proprietary after coverage of operating expenses) are relatively small. Even in the days when the most profitable air proprietaries were at full swing, the most that any single firm netted was $3.9 million (Air America in 1967). Over the entire period 1947-1975, total profits have been $50 million, an average of about $1.6 million annually, for the 16 biggest CIA proprietaries. And in these years, a net loss was sustained three times -- $2.5 million in 1971, $0.5 million in 1973, and $0.3 million in 1975. Looking to the future, after liquidation of the air proprietaries has been completed, there is forecast to be only one profitable proprietary: MHMUTUAL a complex of insurance, reinsurance and, and escrow-holding companies which derives most of its profit from investment portfolios. MUTUAL's net income in 1974 was $1.8 million and this general magnitude of profit is expected in the foreseeable future.

As for treatment in the budget, there is both a policy and procedural aspect. The policy of CIA has changed; in February, 1975 the General Counsel of CIA ruled that profits of proprietaries and proceeds of liquidation must be returned to the Treasury as miscellaneous receipts and cannot be used to augment the Contingency Reserve or otherwise be applied to CIA operations. This ruling overturned the practice of the past which, on the few occasions where profits were not applied to augment net worth of proprietaries --i.e., plowed back into the enterprise or investment portfolios--, was to apply proprietary net proceeds to the Contingency Reserve for later release to operations.

The budgetary presentation and review procedures only partially focus upon proprietary profits. MUTUAL's profits are invisible in the Agency budget; they are taken into account and subject to scrutiny only within CIA; operationally, the DDO annual operational review has the most detailed grasp of MUTUAL at the Agency review levels. A stadard set of public enterprise fund schedules, as prescribed by OMB Circular A-11, would be appropriate for making MUTUAL visible in the Agency budget. Other commercial proprietaries should show these schedules as well. The Agency has indicated that the Comptroller is working with DDO and DDA to develop a new style and content of budgetary presentation and review procedures for CIA proprietaries in future budgets.

To what extent can these new procedures prevent abuses of proprietary profits? To what extent do they preclude the need for legislation in this area? What form of Congressional oversight is needed here-- at what point should Congress exert control? Improvement of visibility in the budget of proprietary resources and provision for review of the major proprietaries as a regular part of budget review by CIA, OMB, and Congressional Committees would seem to preclude most of the dangers of abuse. On the other hand, there is one type of abuse for which additional Congressional scrutiny and safeguards may be needed: the possibility of a small-scale, high-risk covert project directed by the President or DCI which is not covered by the regular appropriation but financed by proprietary profits. No foolproof preventives can be designed by law or regulation; nevertheless, the possibility of such abuse or avoidance of Congressional review can be minimized by requiring

that all CIA proprietaries have an operational charter approved by Congress which forbids launcing activities by proprietaries or using their funds which are contrary to the charter. This internal CIA standard would probably strengthen the existing requirement that covert action projects be certified by the President and flagged to Congressional Committees. At present, MHMUTUAL has such a charter (not reviewed or set by Congress) which restricts MUTUAL to insurance operations. This charter was established in 1974 (called an "Administrative Plan") and must be formally amended before the Chief of Cover Staff will authorize use of MUTUAL resources for other missions.

D. Private Investment by CIA.

The authority of the Agency to engage in private investments and its general policy ambivalence on this matter already have been noted. Two types of general as well as budget issues are presented, one the inverse of the other: 1) Could or should CIA engage in investments which could accumulate funds outside the budget process and hence be available for operations that have not public scrutiny outside CIA? 2) Is CIA investment policy too restrictive in regard to bank deposits? Specifically, should CIA place large amounts of money in private banks without charging interest? Some 20% of its annual $1.2 billion of appropriated and advanced funds goes into private deposit here and abroad, with year-end balances of about $150 million and average deposits considerably greater. The banks selected get an interest or investment bonus. Their selection is non-competitive, rooted in historic circumstance, albeit in institutions that have shown themselves flexible and responsive in

providing the Agency services. Much more investigation is needed here and we encourage the new oversight committee to study this issue in greater detail than we have been able. Probably this is one area where exclusion of the General Accounting Office from CIA audits has had an unfortunate effect: Whether or not there has been abuse, there is no outside reviewer of a complex set of financial records and relationships and consequently the question of confidence in the Agency's role in this area may have been eroded.

What is the future for proprietaries?

Discussion on these questions already has been covered in part. No new proprietaries are in formation or planned. This past fiscal year, 1975, one new proprietary was created to purchase a site for the new location of the New York CIA base; it serves as a real estate holding company or lessor for land and building.

The main provison for new growth is the plan of some years standing for establishment in MHMUTUAL of several corporate "shells" -- legally constituted and registered companies that do very little commercial business but which can be adapted to various new CIA missions. To adapt to these new missions, as noted, would require CIA to amend the MUTUAL Administrative Plan. But this could be done quickly; the existence of the shells avoids the leadtime of creating new corporate entities, with all the complications of local laws and risk of exposure.

While CIA proprietaries are small today compared with yesterday, they are so largely for administrative reasons-- i.e., responsive

to Executive Branch direction. In this sense, there is no reason in law, although there may well not be another era or set of occasions when CIA will find proprietary expansion to be operationally desirable. The Congress should be a partner in the process of reviewing such expansion, if it should occur, by providing for changes in the charter process. Another approach is the setting of substantive guidelines for proprietary operation. This approach is typified by the post-Katzenbach guidelines that prohibit CIA operation of tax-exempt foundations.

Lawrence R. Houston, the former General Counsel of the Agency, was intimately involved with all of the proprietaries for his entire tenure with CIA. Consequently, his views have been invaluable to the Committee in reviewing and evaluating the history and the role of these mechanisms. In the course of a far-ranging interview with the Committee Houston concluded that proprietaries "should be the last resort for use to backstop Agency activities." He grounded this opinion on the fact that:

> they are cumbersome. To be properly run they take many, many man-hours of many, many different parts of the Agency, so they are expensive in man-hours. There are built-in difficulties in running what appears to be a normal business for operational purposes. There's really a built-in dichotomy there that leads to a continual conflict with policies. And due to the number of people involved, there is a security problem on the old grounds that security doesn't go by the mathematical increase in the number of people. It goes geometrically as to the number of people, the security risk.

This assessment seems correct based on all the evidence.

The current Director of Central Intelligence has insisted on the streamlining of such operations, and is keenly aware of the potential for abuse. (See appendix F). It is, for example,

the current written policy of the Agency that "to the degree that domestic proprietary or cover companies are required, a clear justification will be developed as to the relationship of their support of our overseas operations."

In the one area of continuing large-scale activity, the investment complex, the Director has moved to insure propriety even in an area where there is no evidence that any illegal conduct has occurred. The current policy, established as of June 1975 is:

> Project MHMUTUAL will be operated in conformance with appropriate legal restrictions. Arrangements are being made for the briefing of the appropriate Congressional committees. Particular attention will be given to avoiding any possible conflict of interest situations with firms with which the Agency has contracts. Particular concern will also be exhibited over possible improper influence on the stock market or stock dealings through the investments involved in MHMUTUAL.

The Committee is mindful of the potential danger inherent in such operations. Therefore, it recommends that the review of this and other similar projects by the appropriate oversight Committees be stringent in the extreme.

The disposal of proprietaries has also generally proceeded along legal and ethical lines with more than due concern for conflicts of interest. Most notable in this spectrum of actions was the degree to which the Agency tried and did in fact avoid any conflicts of interest when it sold off Southern Air Transport. Such internal vigilance no doubt should and will continue. Moreover, with the establishment of a permanent oversight committee, the CIA's job in this regard will be made easier because it will be able to report on its dealings on a regular basis and avoid criticism.

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TABLE I

SUMMARY OF 16 MAJOR PROPRIETARIES BY YEAR
REFLECTING APPROXIMATELY 80% OF TOTAL FUNDS *

	DIRECT FUNDING SUBSIDY	OTHER INCOME: AGENCY CONTRACTS	OTHER INCOME: OUTSIDE OF AGENCY	GROSS TOTAL	TOTAL EXPENSES	NET
Inception through 1964	$378,596,533	$ 13,298,782	$236,372,776	$ 628,268,091	$ 600,174,573	$28,093,518
1965	44,549,432	7,824,682	35,324,243	87,698,357	74,697,484	13,000,873
1966	36,917,328	15,487,306	46,189,505	98,594,139	94,713,002	3,881,137
1967	48,416,970	21,476,541	69,625,534	139,519,045	134,622,493	4,896,552
1968	30,252,926	21,876,197	61,385,548	113,514,671	111,330,900	2,183,771
1969	35,385,835	22,375,362	57,313,623	115,074,820	110,304,688	4,770,132
1970	32,674,350	20,134,250	57,214,126	110,022,726	108,871,504	1,151,222
1971	34,073,032	23,968,141	48,967,610	107,008,783	109,535,656	(2,526,873)
1972	1,212,896	28,525,628	45,433,428	75,171,952	70,254,485	4,917,467
1973	2,367,008	21,124,434	53,480,302	76,971,744	77,470,477	([illegible])
1974	327,181	14,240,049	45,524,446	60,091,676	60,033,050	58,626
1975	(275,382) **	208,527	4,034,699	3,967,844	4,290,926	(323,082)
TOTALS	$644,498,109	$210,539,809	$760,865,840	$1,615,903,848	$1,556,299,238	$59,604,610

* This information has been extrapolated from a number of sources and represents the best approximation we can make based upon the time and information available.

** No Agency funding during 1975; this credit represents miscellaneous accounting adjustments.

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TABLE II

ACTIVE MAJOR HEADQUARTERS CONTROLLED PROPRIETARIES
FINANCIAL CONDITION AND SUMMARY OF FUNDING, INCOME
AND EXPENSES FOR TWELVE MONTH PERIODS SHOWN BELOW
PER AGENCY RECORDS 30 JUNE 1975

	LPBERRY/B	LPROE/ LPPIKE	(PDPORTAL) PDBASTE	(PDPORTAL) PDBASIC	PDLEDGER
ASSETS					
Cash	$ 26,190	$ 34,674	$ 279,887	$ 319,660	$ 104,068
Investments					676
Other Assets	9,482	13,043	6,063	36,159	17,385
Fixed Assets	1,408	6,503	7,113	14,828	10,286
Total Assets	$ 37,080	$ 54,220	$ 293,063	$ 370,647	$ 132,415
LIABILITIES	$ 923	$ 131	$ 142	$ 60,063	$ 41,010
NET WORTH					
Investment	$388,699	$218,464	$6,039,344	$4,357,743	$ 812,365
Gains & (Losses)	(352,542)	(164,375)	(5,746,423)	(4,047,159)	(720,960)
	$ 36,157	$ 54,089	$ 292,921	$ 310,584	$ 91,405
TOTAL LIABILITIES AND NET WORTH	$ 37,080	$ 54,220	$ 293,063	$ 370,647	$ 132,415
ACTIVITY FOR TWELVE MONTHS ENDED	3/31/75	6/30/75	3/31/75	6/30/75	12/21/74
Funding	$ 47,112	$ 51,120	$1,250,000	$1,126,500	$ 206,000
Income - Other Agency Sources	$ 3,685	$ -0-	$ 10	$ -0-	$ -0-
Income - Outside Commercial	$ 40,541	$139,428	$ -0-	$ 4,839	$ 102,363
Expenses	$ 43,215	$217,484	$1,015,866	$1,145,936	$ 322,432
	(***)		(***) (****)	(****)	(***)

	(PDDYNAMIC) PDTENURE	(PDDYNAMIC) PDTERRACE	VWCADENZA	MHPFUND	[illegible]
ASSETS					
Cash	$ 49,555	$ 26,288	$ 621	$ 517,969	$ 44,…
Investments					153,7…
Other Assets	6,209			42,575	101,6…
Fixed Assets	5,788		1,056	13,908	4,…
Total Assets	$ 61,552	$ 26,288	$ 1,677	$ 574,452	$303,8…
LIABILITIES	$ 1,934	$ -0-	$ 174	$ 1,229	$ 1,8…
NET WORTH					
Investment	$823,448	$257,441	$235,716	$5,036,126	$ 5,0…
Gains & (Losses)	(763,830)	(231,153)	(234,213)	(4,462,903)	297,…
	$ 59,618	$ 26,288	$ 1,503	$ 573,223	$302,…
TOTAL LIABILITIES AND NET WORTH	$ 61,552	$ 26,288	$ 1,677	$ 574,452	$303,8…
ACTIVITY FOR TWELVE MONTHS ENDED	6/30/75	6/30/75	3/31/75	6/30/75	6/30/…
Funding	$197,200	$ 76,000	$ 36,150	$ 431,718	$ -0-
Income - Other Agency Sources	$ 1,885	$ -0-	$ -0-	$ -0-	$307,…
Income - Outside Commercial	$ -0-	$ 35,483	$ -0-	$ 5,610(a)	$ -0-
Expenses	$190,526	$104,728	$ 44,266	$ 463,058	$793,…
			(***)		

NOTES: (a) Interest Income

(*) New projects, no financial statements submitted to date, figures are for one quarter.
(**) Consolidated figures not available.
(***) Latest period for which financial statements have been submitted.
(****) PDBASTE and PDBASIC are being consolidated into one (1) entity, PDPORTAL.

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TABLE II

ACTIVE MAJOR HEADQUARTERS CONTROLLED PROPRIETARIES
FINANCIAL CONDITION AND SUMMARY OF FUNDING, INCOME
AND EXPENSES FOR TWELVE MONTH PERIODS SHOWN BELOW
PER AGENCY RECORDS 30 JUNE 1975

	QRMYSTIC/ QRCYNIC	WUDIRK			LPHCCUS	LPBYZAS/B	LPPANDA		(Consolidated)	LPSUGAR
		WUXIPHOID	WURACH	WUKNOX			LPGKAIR/A	LPREMEDY	MHMUTUAL	
ASSETS										
Cash	$ 3,974	$ 17,757	$50,525	$50,000	$ 7,000	$ 7,954	$ 2,770	$ 7,548	$ 177,158	$ 44,379
Investments						385,984			29,57[illegible],012	
Other Assets	500	2,296			24,348	37,581		13,172	1,531,315	808
Fixed Assets	627	11,074			3,052	1,636		1,826	6[illegible],453	1,507
Total Assets	$ 5,101	$ 31,127	$50,525	$50,000	$34,400	$433,155	$ 2,770	$ 22,546	$31,355,438	$ 46,694
LIABILITIES	$ 11	$ -0-	$ -0-	$ -0-	$ 2,700	$ 3,766	$ -0-	$ 10,831	$17,24[illegible],754	$ 4,269
NET WORTH										
Investments	$79,657	$296,000	$50,525	$50,000	$945,000	$442,832	$376,345	$116,081	$ (**)	$624,619
Gains & (Losses)	(74,567)	(264,873)			(913,300)	(13,443)	(373,575)	(104,366)	(**)	(582,[illegible])
	$ 5,090	$ 31,127	$50,525	$50,000	$ 31,700	$429,389	$ 2,770	$ 11,715	[illegible]	$ [illegible]
TOTAL LIABILITIES AND NET WORTH	$ 5,101	$ 31,127	$50,525	$50,000	$ 34,400	$433,155	$ 2,770	$ 22,546	$31,355,438	$ 46,694
ACTIVITY FOR TWELVE MONTHS ENDED	6/30/75	3/31/75	6/30/75	6/30/75	6/30/75	12/31/74	6/30/75	6/30/75	6/30/75	6/30/75
Funding	$10,000	$191,000	$50,525	$50,000	$ 76,213	$ -0-	$ 3,965	$ 27,465	$ 107,413	$ 35,200
Income - Other Agency Sources	$ -0-	$ 230	$ -0-	$ -0-	$ 22,252	$ -0-	$ -0-	$15,000	$ -0-	$ 2[illegible],675
Income - Outside Commercial	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ 2,289(a)	$ -0-	$ 6,167	$ 3,560,406(b)	$ 5,[illegible]
Expenses	$13,745	$190,800	$ -0-	$ -0-	$ 99,600	$ 12,738	$ 2,415	$50,189	$ 2,110,521	$ 77,[illegible]
		(***)	(*)	(*)		(***)				

NOTES: (a) Interest Income
(b) Includes $423,902.00 in insurance premiums from other Agency components

(*) New projects, no financial statements submitted to date, figures are for one quarter.
(**) Consolidated figures not available.
(***) Latest period for which financial statements have bee submitted.
(****) PDBASTE and PDBASIC are being consolidated into one (1) entity, PDPORTAL.

Annex A

Memorandum of Law

Legal Authority to Dispose of a Proprietary

January 1974

MEMORANDUM OF LAW

DOES THE CIA POSSESS THE LEGAL AUTHORITY TO SELL A WHOLLY-OWNED GOVERNMENT AIRLINE WITHOUT RECOURSE TO THE FEDERAL PROPERTY AND ADMINISTRATIVE SERVICES ACT OF 1949, AS AMENDED?

I. FACTS

There exist two airline corporations wholly owned by the United States Government, which corporations were purchased by, and are under the direct control of, the Central Intelligence Agency. Ownership of the corporations was acquired by means of appropriated funds expended by the Agency under its confidential funds authority, the procurements thus being made outside of the Federal Property and Administrative Services Act. Both corporations were created by the Agency to assist it in fulfilling its statutory responsibilities and, over the years, both have engaged in many sensitive support activities in the furtherance of the national security of the United States. It has been widely reported in unclassified media that the Central Intelligence Agency on behalf of the United States Government is the *de facto* owner of the corporations. Notwithstanding, that ownership is still a classified fact. The activities and missions of these corporations in support of the national security of the United States would have been impossible if United States Government ownership had been officially admitted. Within this context it is the statutory responsibility of the Director of Central Intelligence to protect the overt commercial posture of these corporations and the classified nature of certain of their activities. Now

the Director has determined that the corporations are no longer required by the Agency in the discharge of its responsibilities, that they are excess to Agency requirements, and he has directed that they be disposed of either by sale or liquidation.

II. STATUTES

The Federal Property and Administrative Services Act of 1949, as amended, (40 U.S.C.A. 471 et seq., hereinafter referred to as "the Act"), is in general the controlling statute insofar as Government property is procured, used and disposed of:

> It is the intent of the Congress in enacting this legislation to provide for the Government an economical and efficient system for (a) the procurement and supply of personal property and nonpersonal services, including related functions such as contracting, inspection, storage, issue, specifications, property identification and classification, transportation and traffic management, establishment of pools or systems for transportation of Government personnel and property by motor vehicle within specific areas, management of public utility services, repairing and converting, establishment of inventory levels, establishment of forms and procedures, and representation before Federal and State regulatory bodies; (b) the utilization of available property; (c) the disposal of surplus property; and (d) records management. 40 U.S.C.A. 471.

As an executive agency, the Central Intelligence Agency is within the purv of the Act (40 U.S.C.A. 472; 481), but along with a number of other agenc and activities, it was exempted from the Act:

> Congress, departments, agencies, corporations and persons exempted from provisions

* * *

Nothing in this Act shall impair or affect any authority of—

* * *

(17) the Central Intelligence Agency; . . . .
40 U.S.C.A. 474(17).

The Act's legislative history provides an insight into the breadt of the exemption and, to a limited degree, Congress' intent for giving it.

> Special exemptions from the act.—This subsection exempts from operations under the act a number of activities requiring special treatment. Chief among these are programs for price support, stabilization, grants to farmers, and foreign aid; procurement procedures under the Armed Services Procurement Act of 1947...; the stock-piling of critical materials; the national school lunch program; the Housing and Home Finance Agency with respect to the disposal of residential property; the Atomic Energy Commission; and the Central Intelligence Agency.
>
> It is not intended by these exemptions that those administering the agencies or programs listed shall be free from all obligation to comply with the provisions of the act or from all jurisdiction of the Administrator. On the contrary, it is expected that they will as far as practicable procure, utilize, and dispose of property in accordance with the provisions of the act and the regulations issued thereunder, particularly so far as common-use items and administrative supplies are concerned. Likewise, it is intended that the Administrator shall have full authority, with respect to the agencies or programs mentioned, to make surveys of, and obtain reports on, property and property-management practices, to cooperate in the establishment of inventory levels, and to report excessive stocking, in accordance with the provisions of section 206 (a) (1) and (2).

> In other words, to the extent that compliance with the act and submission to the jurisdiction of the Administrator will not so 'impair or affect the authority' of the several agencies to which the subsection applies as to interfere with the operation of their programs, the act will govern. Any disputes that arise can be settled by the President under the authority to prescribe policies and directives vested in him by section 205 (a). U.S. Code Congressional Service, 1949, Vol. 2, p. 1504. (emphasis added)

One authority of the Central Intelligence Agency which complete application of the Act would "impair or affect" is clearly the Agency's authority to expend confidential funds.

> The sums made available to the Agency may be expended without regard to the provisions of law and regulations relating to the expenditure of Government funds; and for objects of a confidential, extraordinary, or emergency nature, such expenditures to be accounted for solely on the certificate of the Director and every such certificate shall be deemed a sufficient voucher for the amount therein certified. Sec. 8(b), CIA Act of 1949, as amended; 50 U.S.C.A. 403j(b).

The CIA Act of 1949 (63 Stat. 208, P.L. 81-110) became effective June 20, 1949; the Act (63 Stat. 378, P.L. 81-152), July 1, 1949.

The question of law thus presented is: In selling and disposing of the two airline corporations, must the Agency adhere to the Act and submit to the jurisdiction of the Administrator, General Services Administration?

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III. ARGUMENT

The broad authority afforded the Agency by Section 8(b), *supra*, is conclusive—"(t)he sums made available to the Agency may be expended without regard to the provisions of law and regulations relating to the expenditure of Government funds; . . . ." That authority is enhanced, not limited, by the Act—"(N)othing shall impair or affect the authority of— . . . the Central Intelligence Agency", and by the Act's legislative history. It follows naturally that the Agency's authority to procure on a confidential basis without recourse to the Act inherently carries with it the authority to dispose on a confidential basis without recourse to the Act. By way of an extreme hypothetical, suppose the Agency had procured a Soviet weapons system, without Soviet knowledge. Using Section 8(b) authority, it had expended funds through a secure facility for the procurement and brought the system to this country where it was studied and tested. By virtue of the testing the Government was able to develop electronic counter measures which would effectively nullity the system. Upon a determination that the system is of no further use, can it be seriously argued that its disposition by the Agency should be anything other than confidential? The purchase was confidential; possession of it by the United States Government was confidential; and, the knowledge gained and the countermeasures developed are confidential. To hold otherwise would render the intended purpose of Section 8(b) a nullity.

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The short expression of Congressional intent found in the Act's legislative history supports the view that the Agency's activities in the confidential funds area are not within the purview of the Act. "As far as practicable..." procurement, use and disposition should be "...in accord with the provisions of the Act...particularly so far as common-use items and administrative supplies are concerned." It is suggested that a Govern ment-owned, but overtly commercial, airline used in support of foreign intelligence activities does not fall within a "common-use items and administrative supplies" categorization. Similarly, if the last paragraph of legislative history (emphasized portion) quoted above is read in the negative, the proposition becomes clear. "...(T)he act will...(not)... govern...(if)...compliance with the act and submission to the jurisdiction of the Administrator will...'impair or affect the authority' of the several agencies to which the subsection applies as to interfere with the operation of their programs...." Were the Agency required to comply with the Act and submit to the jurisdiction of the Administrator in the exercise of its confidential funds authority, not only would that authority be impaire or affected, but many of the Agency's most significant statutory authoritie and responsibilities would be frustrated.

In looking at CIA's express authority to procure on a confidenti basis and examining the nature of its implied authority to dispose, genera statements on the rules of statutory construction are helpful. For example:

> Where a statute confers powers or duties in general terms, all powers and duties incidental and necessary to make such legislation effective are included by implication. Thus it has been stated, 'An express statutory grant of power or the imposition of a definite duty carries with it by implication, in the absence of a limitation, authority to employ all the means that are usually employed and that are necessary to the exercise of the power or the performance of the duty.... That which is clearly implied is as much a part of a law as that which is expressed.'
>
> * * *
>
> The rule whereby a statute is, by necessary implication, extended has been most frequently applied in the construction of laws delegating powers to public officers and administrative agencies.... Thus where the power to create an office is granted, the power to abolish it will be implied, and where an administrative body is given power to enact regulations or exercise quasi-judicial power, the power to provide for internal rules of procedure will be implied.... The power of a municipality to sue and be sued was held to imply the power to employ special counsel for those purposes although the city had a regular salaried attorney. A municipality, empowered by statute to construct sewers for the preservation of the public health, interest and convenience, was permitted to construct a protecting wall and pumping plant which were unnecessary for the proper working of the sewer, but were essential to public health. Sutherland Statutory Construction § 5402.

Similarly,

> ...(I)t has been held that an express statutory grant of a right, power or privilege carries with it by implication, in the absence of a limitation, all the means that are usually employed and that are necessary and proper to the exercise or enjoyment of the right, power or privilege granted. In such case, the power necessarily implied is a part of the legislative act. There is even authority in support of the rule that power in a statutory grant may be implied although it is not indispensible to the exercise of the powers granted.... 50 Am. Jur., Statutes § 428.

Cases which speak to the subject of implied statutory powers are abundant. In Schmiedigen v. Celebrezze, Judge Holtzoff held that: "(I)t is a well established principle of statutory construction that every legislative enactment must receive a sensible and reasonable constructio[n] that would effectuate its purposes. If a strict, literal interpretation woul[d] frustrate the objective of the legislative body and would lead to an absurd or futile result, it must be avoided." 245 F. Supp. 825, 827 (1965). In U.S. v. Jones, where a statute gave federal officers the power to enforce compliance with the law but was silent on the power to arrest the court stated:

> So, though the term arrest is not used in the statute, the language employed necessarily implies that such power was included.

> Necessary implication refers to a logical necessity; it means that no other interpretation is permitted by the words of the Acts construed; and so has been defined as an implication which results from so strong a probability of intention that an intention contrary to that imputed cannot be supported. The term is used where the intention with regard to the subject matter may not be manifested by explicit and direct words, but is gathered by implication or necessary deduction from the circumstances and the general language.

> Consequently that which is implied in a statute is as much a part of it as that which is expressed, for a statutory grant of a power carries with it, by implication, everything necessary to carry out the power and make it effectual and complete. 204 F. 2d 745, 754 (1953); certiorari denied, 98 L. Ed. 368; rehearing denied, 98 L. Ed. 404.

IV. CONCLUSION

Adherence to the Federal Property and Administrative Services Act in disposing of the two airline corporations would do far more than impair or affect Agency programs. It would endanger the national security which the statutory authorities available to the Agency were designed to protect. The Central Intelligence Agency, because of the unique statutory

grant provided it in Section 8(b) of the CIA Act, and because of the unique nature of its statutory responsibilities, possesses both the express powe: to procure property confidentially without recourse to the Act and the implied power to dispose of property confidentially without recourse to th Act.

RESPECTFULLY SUBMITTED

Gary M. Breneman
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Central Intelligence Agency

Annex B

HR 230-8 and HHB 230-1

Concerning Regulation and Administration

of

Agency's Proprietaries

8. ADMINISTRATIVE PLANS, LIQUIDATION PLANS, AND FISCAL ANNEXES

a. GENERAL

(1) In the furtherance of some Agency objectives it is necessary to establish, operate and support overt instrumentalities which do not have ostensible affiliation with the U.S. Government. These ostensibly private organizations which may be susceptible to scrutiny by a variety of tax and regulatory authorities, the press, hostile elements and others, require operational security of a high order. It is essential that they are established and managed in accordance with normal practices and requirements of the type of enterprise concerned, and that they are staffed with qualified personnel whose cover histories are compatible with such employment. It is also essential that there are adequate general management, financial and security controls consistent with both operational effectiveness and the requirements of nonattribution, for the protection of the Agency's interests.

(2) The controls and procedures which are applicable to an instrumentality will be specified in a project outline and administrative plan or fiscal annex. Standards and format for administrative plans and fiscal annexes, as well as for liquidation plans to be followed when an instrumentality is to be discontinued, are prescribed in HHB 230-1.

b. POLICY

(1) The establishment or continuance of an instrumentality is justified only when it contributes to the accomplishment of the Agency's mission and is operationally determined to be the most advantageous means of gaining a particular and necessary objective. The purpose of an instrumentality shall be to conduct secret operations or support such operations under cover of its overt function.

(2) No binding commitment with respect to the establishment of any instrumentality shall be made before the approval required by this regulation has been obtained.

c. DEFINITIONS

(1) PROJECT. A project is a management device through which specific operational activities are undertaken to meet programmed objectives. Budgeting and financial accountability are maintained against the project for funds and resources authorized for it.

(2) INSTRUMENTALITY. An instrumentality is a corporation, a foundation, partnership, sole proprietorship, or other legal entity (within the private sector, domestic or foreign) for which specific funds or other assets have been authorized under a formally approved project. Within a project there may be one or more instrumentalities.

(a) Proprietary. A proprietary is an instrumentality in which the Agency acquires ownership of a controlling interest, through appropriate nominee or legal entity arrangements. The Agency exercises, through stockholder or other equity arrangements, control of the instrumentality in terms of the policy, administration, formulation of budgets, and the application of funds.

(b) Operational Investment. An operational investment is the acquisition by the Agency of an equity in an instrumentality, through appropriate nominee or legal entity arrangements, of *less than* a controlling interest, with the expectation of recovering some or all of its investment. Any influence the Agency may exert over budget formulation and

the application of funds is a matter of negotiation. (NOTE: Operational loans shall be handled in accordance with provisions of HR 30-9 and chapter IX of HHB 30-1.)

(c) Subsidy. A subsidy is the contribution of funds or materiel to an instrumentality by the Agency, with the Agency acquiring no equity in the assets nor right of participation in either the income or the profits of the entity. (Payments to foreign liaison services are excluded from this definition.) There are two types of subsidy:

(1) Controlled. A controlled subsidy involves support of an instrumentality whose income is primarily derived from Agency funds and which is therefore largely dependent upon such support. To the extent that the Agency is able to exercise control it does so through the formulation of budgets, the requirement for financial accountings, and the application of funds. Where a project consists of a combination of separate subsidy and proprietary instrumentalities, proprietary regulations will be applied to the proprietary instrumentality.

(2) Noncontrolled. A noncontrolled subsidy involves support of an instrumentality to which negotiated fixed-sum incentive payments of Agency funds are made, but budget formulation and the exercise of discretion over expenditures are at a point essentially beyond Agency control. Evaluation of performance is a matter of operational judgment, not necessarily related to the amount of the fixed-sum payments.

(d) Funding and Payrolling Instrumentalities. A funding or payrolling instrumentality is used to fund or payroll Agency activities when, for reasons of security or cover, funding or payrolling must be accomplished through an overt mechanism. The Agency has legal or beneficial ownership of a funding or payrolling instrumentality through appropriate nominee or legal entity arrangements. Although these instrumentalities are proprietaries, they operate under special authorizations that may vary substantially from the requirements of this regulation and HHB 230-1.

(3) PROJECT OUTLINE. A project outline is a written plan for accomplishing programmed operational objectives. Upon approval by appropriate authority it becomes the framework within which the project is implemented and its effectiveness initially evaluated.

(4) PROJECT RENEWAL. A project renewal is the approval after evaluation by appropriate authority for continuation of a project beyond the period covered by its initial approval or previous renewal. The renewal may update or supersede certain provisions of the project outline.

(5) ADMINISTRATIVE PLAN. An administrative plan is a supplement to the project outline which upon approval by appropriate authority constitutes the administrative framework within which the instrumentality is to operate. To that extent it replaces all Agency regulations, except this regulation and HR 230-9, in the management of project instrumentalities, their internal activities and non-Agency employees. An administrative plan is required for all projects establishing and utilizing proprietaries, operational investments, funding and payrolling instrumentalities, and controlled subsidies.

(6) TERMINATION. Termination is the discontinuance of a project or an instrumentality, upon written approval of the Deputy Director or Head of Independent Office concerned.

(7) LIQUIDATION. Liquidation is the settlement of accounts of an instrumentality, the final disposition of its remaining assets, and dissolution of the instrumentality.

(8) DEACTIVATION. Deactivation is the discontinuance of the functioning of an instrumentality, with the charter or franchise retained but in an inactive status, pending determination as to liquidation or reactivation of the instrumentality.

(9) LIQUIDATION PLAN. A liquidation plan prescribes the procedures for implementing a properly authorized operational decision to terminate the Agency's active use of a specific instrumentality and to dispose of the Agency's portion of the assets. An approved plan is required for liquidation of all proprietaries, operational investments, and controlled subsidies with proprietary aspects. No liquidating action will begin until the liquidation plan has been approved.

(10) FISCAL ANNEX. A fiscal annex is a supplement to the project outline that sets forth funding arrangements, specific accounting control, financial reporting requirements, and writeoff provisions. A fiscal annex is required for all noncontrolled subsidies.

d. AUTHORITIES AND RESPONSIBILITIES

(1) AUTHENTICATION OF ADMINISTRATIVE PLANS, LIQUIDATION PLANS, AND FISCAL ANNEXES (HEREAFTER CALLED SUPPORT SUPPLEMENTS)

(a) The joint approval of the Deputy Director having jurisdiction over the project and the Deputy Director for Administration is required for

(1) establishment, deactivation, or reactivation of an instrumentality;

(2) all support supplements and amendments thereto, including specific deviations because of unforeseen or emergency conditions;

(3) transfer between projects of any instrumentality and remaining assets.

(b) Advances of funds to an instrumentality before approval of the related administrative plan or fiscal annex require the approval of the Deputy Director concerned, the Deputy Director for Administration, and the Comptroller.

(c) All liquidation plans require the approval of the Deputy Director concerned and the Deputy Director for Administration.

(2) PREPARATION

(a) The Operating Official having jurisdiction over the project is responsible for the preparation and coordination of the administrative plan or fiscal annex, and, when required in connection with termination of the instrumentality, the liquidation plan.

(b) Administrative plans require the concurrences of designated representatives of the General Counsel; the Director of Finance; the Comptroller; the Director of Security; and the Chief, Cover and Commercial Staff. Liquidation plans require the concurrences of the designated representatives of the General Counsel; the Director of Finance; the Chief, Cover and Commercial Staff; and in addition, the Comptroller for those liquidation plans involving the disposition of assets with an estimated market value in excess of $50,000. The assistance and counsel of other offices will be obtained when their functional responsibility is involved.

(c) Fiscal annexes require concurrence of the Director of Finance and the Chief, Cover and Commercial Staff.

(3) PERIODIC REVIEW AND REAFFIRMATION. The Operating Official responsible for the project will review each approved administrative plan or fiscal annex at least once each year, coincident with consideration of renewal of the project and will either

(a) affirm in writing to the responsible Deputy Director that the previously approved provisions remain adequate and valid; or

(b) initiate appropriate revision when changing circumstances dictate the need.

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FOREWORD

Rescission: HHB 230-1 dated 1 August 1969, 10 January 1973, and 16 March 1973

This handbook incorporates the Agency procedures pertaining to the administration of project instrumentalities that will be followed in carrying out policies prescribed in HR 230-8.

FOR THE DIRECTOR OF CENTRAL INTELLIGENCE:

JOHN F. BLAKE
Deputy Director
for
Administration

DISTRIBUTION: SPECIAL

Revised: 29 October 1974

CONTENTS

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SUPPORT SUPPLEMENTS FOR AGENCY INSTRUMENTALITIES

1. PURPOSE

This handbook sets forth guidance for developing support supplements (administrative plans, fiscal annexes, and liquidation plans) governing Agency instrumentalities, as required by HR 230-8.

2. GENERAL

Properly approved support supplements modify or waive specific provisions of Agency regulations except HR 230-9 and, in lieu thereof, set forth the provisions for special authorizations and management control of instrumentalities in the conduct of their affairs. They are designed to promote

a. the most effective management, to include staffing of each instrumentality with personnel qualified to manage it in accordance with Agency objectives, under sound personnel policies and practices;

b. the establishment of an effective budgeting, accounting, and reporting system that will produce accurate, timely, and useful reports of financial status and financial results of the operations of each instrumentality;

c. the establishment of an accounting system for the instrumentalities that is compatible and reconcilable with Agency financial records;

d. the highest degree of cover and security compatible with the overt character of each instrumentality and its operation or support objectives;

e. the effective Agency control of funding to, and assets held by, the instrumentalities;

f. the orderly deactivation or liquidation of any instrumentality that has ceased to be of operational value to the Agency.

3. ADMINISTRATIVE PLAN PRESENTATION

The administrative plan presentation should consist of (a) a memorandum requesting approval of the administrative plan by the Deputy Director having jurisdiction over the project and the Deputy Director for Administration; (b) the administrative plan (usually drafted by the support element in the operating component concerned); and (c) a concurrence sheet evidencing concurrence in applicable provisions of the administrative plan by the designated representatives of the General Counsel; the Comptroller; the Director of Finance; the Director of Security; the

Chief, Cover and Commercial Staff; and such other Agency components whose functional responsibilities are involved. The memorandum should state the project's operational objectives, the reason why it is believed that an instrumentality is the most advantageous means for attaining the objective, the type of instrumentality to be used, funds approved for the current year, funds programmed for the ensuing fiscal year, and, in the case of a revised plan, a statement as to the need for the revision and funds expended for the past two years.

4. STANDARD PROVISIONS AND REQUIREMENTS OF ADMINISTRATIVE PLANS

Standard provisions and requirements of administrative plans are listed below. A single reference may be made in each administrative plan that the provisions of HHB 230-1 are applicable. Substitute or additional provisions may be included in each plan to the extent necessary wherever the standard provisions and requirements are not applicable.

a. BUDGETING

(1) Purpose

The approved annual operating budget for a project provides the means to integrate it into the planning and budgeting system of the Agency. The process for the annual renewal of a project permits the appropriate Deputy Director, through his review, evaluation, and formal approval of the project and its operating budget, to authorize the continuation of the activity, under which funds may be advanced, controlled, expended, and accounted for, within the terms of the approved operating budget of the project. The approved operating budget of the project provides a basis for an objective evaluation of the real (total) cost of the activity, to include:

(a) Funds Available

Clear identification of funds either available or presumed to be available to the project (or instrumentality) from all sources during the period of the proposed operating budget, which will include

(1) any prior-year funds (beginning cash balance, including liquid assets);

(2) other U.S. Government (non-CIA) funds;

(3) other CIA funds;

(4) all other income;

(5) the new funds requirement of the project (from current appropriation).

(b) Proposed Expenditures

Clear identification of all proposed expenditures requiring cash, broken down in sufficient detail to separate

(1) fixed expenses (overhead); and

(2) operating expense.

(c) Estimated Cash Balance at the End of the Fiscal Year

(2) Preparation

(a) Operating budgets are to be prepared annually for each approved project, with a detailed breakdown for each instrumentality. The budget will cover the past year (estimated obligations), the current year (proposed), and a forecast for at least the next year's operations in agreement with the limitations contained in the relevant operational program. The categories of expense will be consistent for all years and will follow the general classification of accounts in its prescribed accounting reports, to facilitate comparison and justify increases or decreases (overhead vs. operational; stateside vs. overseas; salaries, travel, etc., as applicable).

(b) Scheduling of approvals of operating budgets will conform with the schedules established by the appropriate Deputy Director for annual project renewals.

(c) The Office of the Comptroller is to be provided a copy of the approved operating budget for the project immediately following formal approval by the appropriate Deputy Director. This requirement also pertains to any subsequently approved revision of the project operating budget.

b. FUNDING

(1) Instrumentalities generally should be provided with cash not in excess of three months' normal operating cash requirements. Further funding of any instrumentality should be deferred whenever available funds exceed this limitation. If substantial amounts above this limitation are on hand, the instrumentality should be required to return the excess to the Agency.

(2) Funds in any instrumentality that are in excess of normal operating requirements may be held for operational purposes when justified by the appropriate Operating Official and when approved by the Deputy Director concerned and the Deputy Director for Administration in the following circumstances:

(a) In order that the instrumentality may present periodic financial statements reflecting substantial cash balances and investments for the purpose of strengthening cover and providing the appropriate stature in the community of its operations

(b) To permit the instrumentality to make investments for the purpose of providing income in such amounts that will lend the appearance for cover purposes of not having to rely solely on periodic contributions throughout the year (Agency funding)

(c) To provide the instrumentality with funds for any unusually large anticipated disbursement(s) in order to preclude undue attention which might be created by injection of a large amount of funds and their immediate withdrawal

(3) Funds, as needed, will be made available to an instrumentality through various appropriate funding mechanisms in coordination with the Cover and Commercial Staff and the Office of Finance. All funds received by the instrumentality will be deposited in its bank account(s) whose use and authorized signatories have been approved by the Operating Official responsible for the project. Dual signatories are preferred on all bank accounts.

(4) All bank accounts established by instrumentalities will be reported to the Office of Finance when opened, or notice thereof will be included as a part of the first financial report submitted by the instrumentality covering the period in which the bank account is established. Data reported will include the name and address of the bank; names and titles of signatory authorities; the reason why an account is operable only by a single signatory, if such is the case; and whether the signatories will be covered by a fidelity bond. Bank accounts normally will be in the name of the instrumentality unless deemed operationally inadvisable by the responsible Operating Official, reported and explained concurrently to the Director of Finance for review. If the bank account is to be in some other name, appropriate protective control documents will be executed.

(5) Requests for advances of funds to instrumentalities must indicate (a) the specific purpose of the advance; (b) the identity of any intermediate instrumentalities used to introduce the funds; and (c) the accounting treatment to be given the funds in each receiving instrumentality, as well as any other information that will assist in the clear identification of Agency funding on overt records and statements.

(6) The concurrence of the Director of Finance and the Comptroller and the approval of the Deputy Director concerned are required for a transfer of funds to be made between instrumentalities of different projects. Excepted from this requirement are transfers involving payment for actual services rendered, reimbursement of expenditures made in behalf of the transmitting instrumentality, or accommodation funding.

c. REFUNDS

(1) All refunds from instrumentalities to the Agency, whether permanent or temporary, must be explained by a memorandum stating the purpose of the refund and the effect of the refund on the overt records and statements of the instrumentality.

(2) In the event funds are to be returned to the Agency under paragraph 4b(1) above, the Operating Official having jurisdiction over the project will devise the method of repayment in coordination with the Director of Finance and the Cover and Commercial Staff.

d. AGENCY CERTIFICATION AND APPROVAL

The project case officer will review financial statements submitted by the instrumentality (see paragraph 4n(3) below) and attach his certification that "to the best of my knowledge and belief the statements are true and correct and the reported expenditures are within the scope of the project authorization." In addition, the financial statements will be approved by an appropriate Agency approving officer and forwarded to the Proprietary Systems Branch, Office of Finance, at the earliest possible date and not later than sixty days after the close of the accounting period; extensions of time will be granted by the Director of Finance upon appropriate and reasonable request. Approval procedures for the writeoff of assets are outlined in HHB 30-1 chapter VIII for cash and receivables and HR 45-6 for inventory or property items. A copy of the financial statements will be forwarded to the Office of the Comptroller. When the instrumentality is funded by more than one Agency component, the case officer certification and approving officer approval of such components also will be obtained.

e. ACCOUNTING IN AGENCY RECORDS

The Office of Finance is authorized to accept the financial statements referred to in paragraph d above, for appropriate recording in the Agency's system of accounts.

f. PROTECTION OF U.S. GOVERNMENT INTEREST

(1) In the case of a stock-issuing instrumentality, all purely nominal stockholders (as specifically differentiated from Agency-controlled holding companies or non-Agency connected beneficial shareholders) either will endorse in blank at time of issue the stock certificates issued in their names or execute an irrevocable stock power covering the stock issued.

(2) In the case of a nonstock-issuing instrumentality, control documents protecting the equity or other interests of the Agency will be executed. Those documents may be overt or classified, and will be prepared by the Office of the General Counsel. The classified documents will be executed on behalf of the Agency by the Special Contracting Officer, Office of Personnel.

(3) The executed stock certificates, irrevocable stock powers, declarations of trust, memoranda of understanding or other control documents evidencing Agency equity or interest in instrumentalities will be forwarded promptly to the Proprietary Systems Branch, Office of Finance, for recording and custody. When such documents need to be retained by an instrumentality, the reasons that necessitate such retention will be reported to the Proprietary Systems Branch, Office of Finance, by the Operating Official responsible for the project. This report will detail the documentation retained and the location and type of safekeeping facility in which it is held, and include a signed statement of the custodian acknowledging responsibility for the documents. When possible, copies of the documents will accompany this report.

g. PERSONNEL POLICY

(1) Unless covered in the project outline, certain personnel data must be included in the Administrative Plan. This should set forth a table of organization, salary scales, benefits and allowances to be provided, and a statement of key personnel selection procedures. Such data will be reviewed and approved by the Director of Personnel.

Revised: 29 October 1974

(2) Neither salaried employees of instrumentalities nor persons engaged by instrumentalities in other than an employee status will receive pay in excess of the maximum rate of a GS-15 unless approved by the Director of Central Intelligence.

(3) No commitment regarding benefits or insurance coverages will be made to personnel of an instrumentality until such proposals have been reviewed and approved by the Deputy Director concerned and the Director of Personnel.

(4) If cover employment is to be provided Agency personnel, such action requires prior coordination with the Cover and Commercial Staff on an individual basis.

(5) The employment of an individual who will be responsible for the maintenance of the instrumentality accounting records will be subject to approval by the Director of Finance.

h. INSURANCE COVERAGE

(1) The insurance program required by proprietary instrumentalities will be coordinated with the Cover and Commercial Staff for implementation through MHMUTUAL facilities or through an alternate method agreed upon by the responsible directorate and the Cover and Commercial Staff. Insurance coverages provided through MHMUTUAL include, but are not limited to, workmen's compensation, aviation, marine and other equipment coverages, property damage, liability, fire and extended coverages as well as those personnel coverages referred to below.

(2) All staff and contract employees as well as detailed civilian and military personnel assigned to a proprietary instrumentality are entitled to the statutory or contractual insurance benefits applicable to them by reason of their Government employment status. All personnel directly hired by a proprietary instrumentality are entitled to the following:

(a) Life insurance and commitments for death and disability benefits in the performance of duty in accordance with HR 20-49.

(b) Retirement pension and annuity benefits if approved by the Director of Personnel.

(c) Medical and hospital insurance benefits if approved by the Director of Personnel. MHMUTUAL does not normally either directly underwrite or reinsure these coverages, but the Cover and Commercial Staff will provide advice and assistance upon request.

i. CASUALTY PROVISION

See paragraph 5 below.

j. LEGAL SERVICES

The Office of General Counsel at all times will be kept advised of the current status of the legal requirements of the instrumentality and will be responsible for accommodating its legal problems and for approving the use and the fee of outside counsel. Any attorney used by an instrumentality will be selected or approved by the Office of General Counsel.

k. SECURITY POLICY

(1) Unless covered in the project outline, there should be a statement in the Administrative Plan outlining the security requirements. This should include the types of operational security approvals; physical and document security controls; contact and communications procedures between the instrumentality and the Agency; security indoctrination of personnel; procedures for periodic review of operational security and related matters by CI Operations; emergency procedures, if applicable; and requirements for storage of classified or sensitive material.

(2) An instrumentality will be managed in a manner consistent with its overt purpose to avoid disclosure of its true nature and the Agency's connection with it. No non-Agency person will be made witting of the true nature of an instrumentality without prior approval by both the Operating Official concerned and the Director of Security. All persons considered for employment in an unwitting capacity also will be reported for approval, with appropriate biographic information. The responsible directorate may establish additional requirements and procedures as required.

l. Not used

m. AUDIT

An audit program will be developed and implemented in accordance with the requirements of HR 31-1. The prior approval of the Chief, Audit Staff is required for the employment of either witting or unwitting public accountants for audit purposes.

n. FINANCIAL ACCOUNTING AND REPORTING

(1) The instrumentality will maintain an accounting and a financial reporting system consistent with the dictates of cover and security and approved by the Director of Finance.

(2) The accounting system will provide

(a) full recording of the financial operation of each instrumentality;

(b) control over and accountability for all funds, property, and other assets for which each instrumentality is responsible;

(c) information required for integration of instrumentality accountings into the accounting records of the Agency;

(d) any other financial or cost information required for effective management of the instrumentality by the responsible Operating Official.

(3) The instrumentality will submit the following financial statements and related data on at least a quarterly basis:

(a) Balance Sheet.

(b) Statement of Income and Expense.

(c) Summary Statement of Cash Receipts.

(d) Summary statements of each transaction in Certificates of Deposit and interest-bearing accounts.

(e) Schedule of salaries paid to Agency staff and contract personnel.

(f) Schedule of salaries and expenses, classified by general categories, paid to directors and principal executives of the instrumentality.

(g) Schedule of cash in bank accounts with certification that reconciliation with instrumentality accounts has been made and reviewed.

(h) If an asset has been written off during the reporting period, a schedule also will be included with the financial report describing the item(s) written off and the circumstances that support the writeoff action. Write-off action is subject to the approval procedures in HHB 30-1 chapter VIII and HR 45-6.

(i) Any other financial reports required by the Office of Finance and concurred in by the Agency component responsible for the project.

(4) The statements will be certified as true and correct by the principal agent of the instrumentality. The statements will clearly reflect Agency funding for the period covered, or such funds will be identified in a covering memorandum signed by the appropriate Agency approving officer transmitting the statements to the Office of Finance, including specific identification of the manner in which the funding is recorded on the books of the instrumentality. In addition, the covering memorandum will identify all fictitious accounts and amounts included in asset, liability, capital, income, or expense accounts, the balances of which are distorted to cover present or anticipated Agency funding or interproject transfers of funds or equipment. If overt records must be deceptive for cover purposes, supplemental reporting should give complete and accurate information for internal Agency records.

o. BORROWING, LENDING, AND PLEDGING OF ASSETS

The prior concurrence of the Director of Finance and approval of the Deputy Director having jurisdiction over the instrumentality are required for borrowing or lending funds or pledging any asset by an instrumentality. Bank overdraft privileges will be considered as borrowings and require the same concurrence and approval as stated above. Notional borrowing or lending in order to pass Agency funds between instrumentalities for approved funding purposes does not require the above concurrence and approval.

p. INVESTMENT POLICY

(1) When an Operating Official wishes to invest funds that have been approved for retention in accordance with paragraph 4b(2) above or funds that are a portion of the three months normal operating cash requirements, he will forward to the Director of Finance for his approval a memorandum recommending the investment of funds. The memorandum recommending the investment of funds will provide the following data:

(a) Reason for the investment.

(b) Types of investment recommended, restricted to the following:

(1) U.S. Government securities.

(2) Interest-bearing accounts or Certificates of Deposit in member banks of the Federal Reserve System only.

(3) Non-U.S. Government securities; list specific issues recommended for purchase.

(c) Maximum amount recommended for investment in each type.

(d) Length of time investment of funds is anticipated.

(e) In the event of investments in securities, state the name in which they will be registered and the type and location of safekeeping facilities to be used for the securities.

(2) After initial approval of the Director of Finance, the instrumentality may, at its discretion, make continuing investments in U.S. Government securities or in interest-bearing accounts or Certificates of Deposit of approved bank(s) having maturities of one year or less. Each purchase of Certificates of Deposit having maturities of greater than one year and each investment in non-U.S. Government securities must have prior approval of the Director of Finance and the Comptroller.

q. REAL PROPERTY AND OFFICE FURNISHINGS

(1) The lease of real property requires approval of the designated Agency approving officer for the project concerned. Purchase, construction, improvements, or alterations of real property (except improvements or alterations included in approved operating budgets) require approval of the designated approving officer for the project concerned and, in appropriate cases, the technical authorization of the Director of Logistics. (The component responsible for the project will maintain a record of real property held by the instrumentality, including the following information as applicable: country or state of location; type, i.e., purchased or leased; size, i.e., square footage of building and acreage of land; purchase price; permanent improvements or alterations totaling $1,000 or more; annual rental and term of lease, unless the property is acquired for less than 12 months and the rent does not exceed $250 per month. This information will be made available to the Director of Logistics upon request.)

(2) The procurement of office furnishings not included in approved operating budgets requires the prior written approval of the Operating Official responsible for the project.

r. LIMITATION ON INDIVIDUAL DISBURSEMENTS AND CONTRACTUAL ARRANGEMENTS

Except for funding transactions, any disbursement in excess of $5,000 or contractual arrangement of more than 12 months' duration requires the prior approval of the designated Agency approving officer for the project concerned.

s. SPECIAL ADMINISTRATIVE EXPENSE POLICY

(1) Travel and subsistence expenses incurred in behalf of the instrumentality by authorized representatives will be paid on the basis of actual and necessary expenses. When actual and necessary expenses exceed the maximum allowable rate established for reimbursement for actual expenses under HR 22-7, the claimant will provide detailed justification. Authorized representatives may include stockholders, officers, directors, employees, any individual retained in a professional or independent contractor capacity on a fee basis, and staff agent or contract personnel wholly integrated into the project. Air transportation less costly than first-class will be used to the extent practicable. When first-class fares are paid, such payment will be justified in writing in the files of the instrumentality.

(2) Operational entertainment expenses incurred by any of the above personnel will be reimbursed on an actual cost basis in accordance with HHB 30-1 chapter IX, to the extent that such expenses are reasonable and necessary to the accomplishment of operational objectives.

(3) Directors of instrumentalities may be paid up to $50 per day, and travel and subsistence expenses for their attendance at directors' meetings, except that the payment of $50 per day will not be allowed to directors having an employment relationship with the Agency or with the instrumentality.

(4) Expenditures authorized in paragraphs s(1), (2), and (3) above will be reviewed at periodic intervals by the responsible case officer to evaluate the necessity for such expenditures and their reasonableness.

t. TERMINATION AND LIQUIDATION

(1) The Administrative Plan will provide that when a proprietary project or part thereof ceases to have operational value or will cease to have such value in the immediate future, the responsible Operating Official will prepare and submit to the Deputy Director concerned for his approval a proposal to terminate the project or a part thereof.

(2) The proposal will set forth any conditions or considerations that have a bearing on the decision to discontinue the project or a part thereof and include the date that it is recommended operations cease.

(3) The liquidation plan will be prepared in accordance with the provisions of paragraph 6 below.

(4) If the proposal includes deactivation of any project instrumentality, together with a disposition of a portion of its assets, the memorandum will set forth, in an attachment, information concerning planned disposition, after settlement of obligations, of cash and noncash assets of the instrumentality. The plan for partial disposition of assets requires the same approvals as a liquidation plan.

5. CONTINGENCY CASUALTY PLAN

A contingency casualty plan should be prepared for instrumentalities if required by HR 20-49.

6. LIQUIDATION PLAN

When the Deputy Director concerned has approved liquidation and dissolution of a project instrumentality, a liquidation plan will be developed by the responsible Operating Official to cover liquidation of the assets and liabilities of the instrumentality as required by HR 230-8 and in accordance with the format and substance set forth below. It will be forwarded for approval as provided in HR 230-8d.

a. Identification of instrumentality(s) to be liquidated

b. Approval for termination (cite approved proposal as required in paragraph 4t(1) above)

c. A concurrence sheet showing concurrences in the applicable provisions of the liquidation plan by the designated representatives of the General Counsel; the Director of Finance; the Chief, Cover and Commercial Staff; the Director of Logistics, when real and personal property holdings are involved; other Agency components when their functional responsibilities are involved; and the Comptroller when assets of an estimated market value in excess of $50,000 are involved

d. Financial Statements

Furnish a current statement of assets and liabilities, and a projected statement of assets and liabilities at date of termination to include terminating expenses.

e. Method of Liquidation

(1) Party responsible for actual liquidation. Explain how liquidation of the instrumentality will be handled, such as by principal agent, cleared and witting attorney, etc.

(2) How will the instrumentality be disposed of?

(a) Will it be disposed of intact? If so, by bid, negotiation, gift, etc.; or

(b) Will the instrumentality shell be transferred to another Agency project; or

(c) Will the charter be terminated; or

(d) Will the instrumentality continue to operate without Agency participation; or

(e) Will the instrumentality be deactivated but retained in a dormant state for future possible use?

f. Requirement, if any, for additional funds to cover liquidation and estimated date of financial liquidation

g. Disposition of Assets and Liquidation

(1) If the instrumentality is not to be sold intact, how will noncash assets be disposed of? By bid, negotiation, transfer to another Agency project, gift, etc.?

(2) Include a positive recommendation to be developed in consultation with the Director of Finance for the disposition of all cash assets including funds recovered or realized through the liquidation process.

h. Final Audit

The plan should provide for a final audit before the instrumentality is liquidated or sold.

i. Authorization for adjustment of Agency financial records for profit or loss.

j. A positive statement that the Office of Finance is authorized to make necessary adjustments to the instrumentality's investment account based on the final liquidation financial statement

7. FISCAL ANNEXES

a. GENERAL

Use of the fiscal annex is based on the principle that accounting requirements should be determined by the nature of the relationship between the instrumentality and the Agency, the degree of control

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exercised by the Agency and, finally, the availability of meaningful accounting data within the instrumentality. In this light, fixed, pro forma accounting requirements are not sought; rather, each case will be approached individually through the fiscal annex with a view to establishing accounting requirements that will assure that use of Agency funds is controlled and adequately documented to a degree consistent with the nature of the instrumentality and its relationship with the Agency. A fiscal annex is required for all noncontrolled subsidies.

b. ACCOUNTING PRINCIPLES

The purpose of the fiscal annex is to document the particular fiscal realities of an individual noncontrolled subsidy (HR 230-8c(2)(c)(2)). The fiscal annex may authorize appropriate deviation from normal Agency accounting requirements. It should establish funding arrangements, specific accounting controls, financial reporting requirements, and writeoff provisions consistent both with the fiscal realities and with the Agency's responsibilities for proper use of funds. Accounting control should be established through the use of Agency advance accounts, intransit accounts, and memorandum accounts to follow the flow of funds from the case officer to the ultimate recipient.

c. FINANCIAL STATEMENTS

Provision should be made in the fiscal annex for financial statements to be used as the final element of accounting control through use of Agency memorandum accounts

(1) when financial statements are the normal practice of an instrumentality;

(2) when they are available to the Agency within the operational relationship; and

(3) when the Agency contribution is identifiable therein.

d. USE OF CERTIFICATION AS EVIDENCE OF FULFILLMENT OF THE PURPOSES FOR WHICH FUNDS WERE ADVANCED

When meaningful financial statements are not available and the nature of the operation is such that insistence upon financial statements is inadvisable, it is considered appropriate and consistent with Agency practice to provide for documentation of "services rendered" in the form of a certification signed by an appropriate case officer and approved by the designated Agency approving officer for the project concerned. Such certification executed on requests for advance subsequent to the initial advance should read substantially as follows:

I certify that to the best of my knowledge and belief funds advanced to this project have been or are being used for the purposes for which they were drawn and further advances are warranted.

In these instances appropriate evidence of receipt of funds by the instrumentality or its representatives normally will constitute full accounting for use of the funds and no memorandum accounting procedure need be used.

e. USE OF CERTIFICATION FOR OPERATIONAL REVIEW

In addition to the use of certifications to support use of funds, Operating Officials occasionally desire to use this procedure to ensure that appropriate periodic review of the financial aspects of the instrumentality is accomplished by responsible officers. In such cases the fiscal annex may provide that certifications will be the basis for recording and clearing the memorandum account even though accounting requirements are satisfied prior to such recording and clearing.

f. FINANCIAL DATA FOR OPERATIONAL PURPOSES

Occasionally operational interest in projects requires that certain financial information be obtained from the instrumentality. This information ordinarily consists of data regarding the use of funds that indicates that such use is, in general, consistent with the purpose of the project. Although these data are of accounting significance, the format, arrangement, and objective of the reports may be in a form that is not susceptible to technical treatment and recording in the accounts of the Agency. In such cases the fiscal annex should indicate that the financial report is required for operational but not accountability purposes.

g. REIMBURSEMENT FOR OPERATIONAL DEFICITS

If the amount of Agency support is determined by the operating deficit of an instrumentality, payments must be supported by financial statements or other satisfactory evidence establishing the amount of the deficit.

h. FORMAT OF FISCAL ANNEXES

Although the format is not rigid, the sections described below are the minimum requirements of a fiscal annex. Other sections may be added as necessary.

(1) Purpose and Instrumentality

Furnish a brief, sterile statement of the nature and purpose of the project and instrumentality to be used. Include a brief description of the Agency's relationship with the instrumentality, showing the degree of control that the Agency can exercise over the facility in its use of and accounting for funds.

(2) Funding

Describe the basis for advances to the instrumentality, and the mechanisms to be used in introducing funds into the activity; state whether it will be funded by headquarters or specified field stations. Any special or unusual requirements should be set forth in this section.

(3) Accounting and Writeoff

Define the accounting requirements applicable to the instrumentality and prescribe the documentation required to permit certification and writeoff by the authorized certifying officer. The use of memorandum accounts should also be described in this section.

DISTRIBUTION: SPECIAL

OGC [illegible]-0331

3 February 1975

MEMORANDUM FOR: Director of Central Intelligence

SUBJECT: Proprietary Withdrawals and the Contingency Reserve

1. I am attaching a memorandum of law entitled "Proprietary Withdrawals and the Contingency Reserve." This was discussed with you last week.

2. It is obvious that a number of policy decisions and actions will flow from this decision. Our congressional committees need to be appropriately informed, the Comptroller will need to work out certain adjustments with OMB, and I also believe there are certain policy decisions that the Comptroller will have to work out with Finance with respect to pending transactions which would have placed returns from proprietaries in the Reserve. I shall send copies of this memorandum of law to all interested components and will assist them in any way they wish.

JOHN S. WARNER
General Counsel

Attachment

cc: DDA
DDO
OLC
Comptroller
D/Finance

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OGC:JSW:sin
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1 - ER via Ex Secty w/att
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SECRET

3 February 1975

MEMORANDUM OF LAW

SUBJECT: Proprietary Withdrawals and the Contingency Reserve

REFERENCES: A. Memo to DCI fr C/CCS, dtd 8 Jan 74, subj: Project MHMUTUAL Policy

B. Memo for the Record fr Comptroller, dtd 19 Aug 74, same subject

1. Reference A recommended that there be returned to the Agency Reserve starting with calendar year 1973 that portion of MHMUTUAL annual profits not required for Project needs. The Director approved the basic paper on 8 February, but noted "surplus funds from MHMUTUAL earnings will be returned to the Treasury rather than the Agency Reserve." Reference B recorded a telephone decision by the Director that "[w]hen funds are withdrawn from proprietaries, they will be transferred to the Contingency Reserve...."

2. The purpose of this paper is to examine the legal aspects of these policy decisions. The concept of the Reserve was established in 1952 as a means by which the Agency would have flexibility to fund projects or activities which had not been contemplated in the normal appropriation request. Its purpose was to create a mechanism to provide funds for unforeseeable requirements which would be more rapid and secure than the supplemental appropriation procedure employed by other Government agencies. The Reserve has been funded by direct appropriation and by transfer of unobligated appropriations at appropriate times after the close of the fiscal year. Funds were and are released from the Reserve only with the approval of OMB with subsequent notice of each Reserve withdrawal furnished in writing to the two appropriations committees.

E-2 IMPDET
CL BY 000276

3. In lieu of a specific annual appropriation act for the Agency, OMB by letter notifies the chairmen of the two appropriations committees that the Agency budget of a specific number of dollars is contained in the DOD appropriation request. The letter also specifies the accounts in which these funds are located. In the past where there were appropriations to the Reserve, that letter would specify the amount of the operating budget and the amount to be applied to the Reserve. After committee action, appropriate letters, sometimes separately and sometimes jointly signed by the chairmen of the two committees, are sent to OMB specifying what has been approved for the Agency budget and confirming the accounts in which they are located. Thereafter, the necessary transfers to the Agency are accomplished pursuant to the authority of Section 5 of the CIA Act of 1949, which was specifically worded so as to permit appropriations for the Agency to be placed in the accounts of other agencies and then transferred to the Agency free of all limitations and restrictions on the appropriation from which transferred. The effect of this was to permit those funds to be expended under the authorities of the CIA Act of 1949, rather than the authorities of the appropriation acts from which transferred. A transfer under other authority such as the Economy Act would require that the funds be spent in accordance with limitations of the appropriation from which transferred, both as to purpose and annuality. Unlike any other agency, our "appropriation act" is the process described above and consists of the following principal elements:

a. the OMB letter;
b. the chairmen letters;
c. the DOD appropriations act approved by the whole Congress and signed by the President; and
d. the transfers to the Agency approved by OMB and authorized by Section 5 of the CIA Act of 1949.

4. The question then arises whether a return of money from a previously established proprietary can be placed in the Reserve and later expended by the Agency under the law. There are several provisions of law based on Article I, Section 9 of the Constitution, which states that "no money may be drawn from the Treasury, but in consequence of appropriations made by law." Twenty years after the Constitution was ratified, the act from which present law derives was enacted. That law is section 628 of Title 31 of the U. S. Code which states:

> Except as otherwise provided by law, sums appropriated for the various branches of expenditure in the public service shall be applied solely to the objects for which they are respectively made, and for no others.

5. Illustrative of the uniformly strict interpretation given to 31 U.S.C. 628 is a decision rendered by the Comptroller General to the Secretary of the Treasury and reported at 37 Comp. Gen. 732 (1958). In this case Congress had authorized an appropriation for payment of inequitable losses in pay sustained by military officers under emergency economy legislation, but did not thereafter include funds for this purpose when it enacted appropriations for the Treasury. The Commandant of the Coast Guard had advised a subcommittee of the House Committee on Appropriations during appropriation hearings that, unless the Committee had an objection, it was intended to pay such claims for losses in pay from the Coast Guard appropriation for "Operating Expenses." Thereafter, the General Accounting Office Claims Division determined that over $30,000 in such claims were allowable, but the Comptroller General was forced to conclude that no claims could be certified for payment because there was no available appropriation earmarked for their payment. Citing 31 U.S.C. 628 and stating the rule that "the appropriations provided by Congress to the Federal agencies may be used only for the objects for which they are made and no others," the Comptroller General decided that the statement made by the Commandant before the House subcommittee did not have the effect of making funds appropriated as "Operating Expenses" available for payment of the special claims. The Comptroller General held that the appropriate recourse was to submit a request for appropriation to the Congress.

6. In 1849 the Congress sought to buttress the appropriation principle set forth in the Constitution by passing a law from which is derived 31 U.S.C. 484, which provides in part:

> The gross amount of all moneys received from whatever source for the use of the United States,... shall be paid by the officer or agent receiving the same into the Treasury, at as early a day as practicable, without any abatement or deduction on account of salary, fees, costs, charges, expenses, or claim of any description whatever.

Also, Section 487 of 31 U.S.C. (originally passed in 1877) provides specifically that all proceeds of sales of public property of any kind, (with certain exceptions not relevant here) shall be deposited and covered into the Treasury as Miscellaneous Receipts and shall not be withdrawn or applied, except in consequence of a subsequent appropriation.

7. Where the Agency makes funds available to establish a proprietary or to add additional investments, the funds are recorded on Agency books as having been expended and the Director certifies to the expenditure

under section 8(b) of the CIA Act of 1949. I am informed that when an expenditure of this type is recorded on Agency books, nevertheless, a memorandum account is maintained so that the Agency has a record of the precise amount of Government funds invested in the proprietary. I am also informed that, if a proprietary were to be fully liquidated with the proceeds scheduled to go to the Reserve, but the funds returned are in excess of the investment, the excess would not be placed in the Reserve, but would be credited to Miscellaneous Receipts. Where funds are returned to the Agency from a proprietary, the current procedure is for the Agency to "reverse" the original expenditure entry and, for those funds which are to go into the Reserve, the Reserve account on the Agency books is credited, with notification to OMB.

8. Let us take a hypothetical situation where 20 years ago the Agency expended $1 million to establish a proprietary. At that time the $1 million would have been recorded as expended, certified under the Director's authority for purposes contemplated by the appropriation of 20 years ago. In the meantime, that $1 million would have been spent by the proprietary for salaries, purchase of equipment, or for other purposes. The Agency either supplemented its original expenditure with additional monies or the proprietary might have made a profit during these years. This proprietary, at Agency direction, now liquidates its activities, including the selling of assets. Under the Constitution and the laws cited above, it is my opinion that the law requires all such return of funds to the Agency to be covered into the Treasury as Miscellaneous Receipts.

9. The Agency may not legally expend these funds once again without the approval of the Congress, and by that I mean the full appropriations process and not merely the approval of OMB and notification to our two appropriations committees. The essential element missing in this latter procedure is that there has not been an appropriation bill approved by the Congress as a whole and signed by the President. In effect, the Agency would have had its appropriation supplemented without the full appropriation process.

John S. Warner

JOHN S. WARNER
General Counsel

CURRENT EQUITY INVESTMENTS

Stocks	No. of Shares	Average Cost Per Share	Cost	Market Price
Abbott Laboratories	3000	[illegible]	[illegible]	[illegible]
American Elec. Power	5000	37-1/8	185,5[illegible]	[illegible]
American T&T	4000	50-1/[illegible]	200,[illegible]	[illegible]
Ampex	4000	3[illegible]-1/2	[illegible]	[illegible]
Central & Southwest	1000	[illegible]	[illegible]	[illegible]
Coca Cola	4000	[illegible]-1/4	[illegible]	[illegible]
Control Data	1000	1[illegible]-3/8	[illegible]	[illegible]
Dr. Pepper	2000	1[illegible]-1/2	[illegible]	[illegible]
Eastman Kodak	3000	[illegible]-1/4	[illegible]	[illegible]
Ford Motor	3000	51-1/2	15[illegible]	[illegible]
Gillette	3000	55-1/4	165,547	[illegible]
Houston Nat. Gas. Cov. Pref.	60	52-1/8	3,126	[illegible]
IBM	400	27[illegible]-1/2	[illegible]	[illegible]
Johns Manville	6000	[illegible]-1/2	[illegible]	[illegible]
Liberty National Life	6000	23-1/8	138,6[illegible]	23-3/[illegible]
Minnesota Mining & Manufacturing	2000	81-1/2	163,013	9[illegible]
National Cash Register	2000	53-3/8	106,758	[illegible]
Pillsbury	2000	48-1/8	[illegible]	[illegible]
Reynolds Metal	1000	59-3/8	[illegible]	[illegible]
Scott Paper	5000	33-1/4	166,6[illegible]	[illegible]
Southern	10000	28-1/8	281,317	[illegible]
Sterling Drug	4000	30-1/2	[illegible]	[illegible]
Texaco	4000	37-1/4	[illegible]	[illegible]
U.S. Fidelity & Guaranty	3000	3[illegible]-3/4	[illegible]	[illegible]
Universal Oil	4000	28-3/8	113,[illegible]	[illegible]
Va. Electric & Power	1333	32-5/8	[illegible]	[illegible]
Xerox	2000	80-7/8	161,6[illegible]	[illegible]
			$3,292,808	

Net dividends received through December 31, 1970: $107,9[illegible]

Purchases for December 1970: None

[illegible] closing price December 31, 1970 from THE WALL STREET JOURNAL

R1819

Common Stock

Date of Purchase	Stocks	No. of Shares	Purchased at Per Share	Purchased at Amount	31 December 1971 Per Share	31 December 1971 Amount	P/E Ra
	Electrical Equipment						
3/31/71	Combustion Engineering	1000	61-3/4	62,201.18	62-1/8	62,125	
4/ 5/71	Combustion Engineering	500	61-3/4	31,115.90	62-1/8	31,062	
4/ 5/71	Combustion Engineering	500	61-5/8	31,038.30	62-1/8	31,063	
4/23/71	Combustion Engineering	100	69-3/4	7,020.98	62-1/8	6,212	
4/23/71	Combustion Engineering	2900	69-7/8	203,810.21	62-1/8	180,163	
	Total and Average Price	5000	66-3/4	335,186.57	62-1/8	310,625	18
6/ 9/71	McGraw Edison	3500	43	151,597.50	34-1/4	119,875	
6/10/71	McGraw Edison	1000	43-1/4	43,496.30	34-1/4	34,250	
6/10/71	McGraw Edison	500	42-3/4	21,576.90	34-1/4	17,125	
	Total and Average Price	5000	43	216,670.70	34-1/4	171,250	14
	Insurance						
10/21/71	Crum and Forster	5000	29-7/8	149,375.00	31-1/2	157,500	11
11/ 1/71	Hanover Insurance	1000	36-7/8	36,800.00	41-1/4	41,250	
12/ 7/71	Hanover Insurance	1000	38-5/8	38,650.00	41-1/4	41,250	
	Total and Average Price	2000	37-3/4	75,450.00	41-1/4	82,500	7
11/ 1/71	Ohio Casualty	1000	43-3/4	43,750.00	48	48,000	13
	Office & Business Equipment						
6/19/70	IBM	400	275	110,281.00	336-1/2	134,600	36
	Oil						
7/11/69	Texaco	4000	37-1/3	149,365.60	34-3/8	137,500	10

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Common Stock

Date of Purchase	Stocks	No. of Shares	Purchased at Per Share	Purchased at Amount	31 December 1971 Per Share	31 December 1971 Amount	P/E Ratio
	Utilities						
/11/64	VEPCO	533	32-3/8	17,241.07	20-1/2	10,926	
/18/66	VEPCO	800	32-15/16	26,331.94	20-1/2	16,400	
	Total and Average Price	1333	32-11/16	43,573.01	20-1/2	27,326	11
				$ 1,123,651.88		$ 1,069,301	

Not shown above are stock options to buy 7,500 shares of Arabian Shield Development Company stock @ $.25 per share.. The option is good until April 3, 1975. December 31, 1971, prices on Arabian Shield are 1-5/8 - 2-1/8.

COMMON 'OCK

Date of Purchase	Stocks	No. of Shares	Purchased at Per Share	Purchased at Amount	29 December 1972 Per Share	29 December 1972 Amount	P/E Ratio
	Automotive Supplies						
/23/72	Irvin Industries	5000	13-5/8	67,929.63	9-1/8	45,625	15
/20/72	Javelin Corporation	6000	22-5/16	133,875.00	10-1/2	63,000	13
	Broadcasting						
8/21/72	Metromedia Incorporated	5500	38-1/4	210,218.00	32-1/2	178,750	19
	Conglomerates						
1/28/72	W.R. Grace	5000	29-15/16	149,683.16	26-1/2	132,500	
3/ 6/72	W.R. Grace	2000	29-1/16	58,121.08	26-1/2	53,000	
3/ 8/72	W.R. Grace	1000	28-1/16	28,093.80	26-1/2	26,500	
	Total and Average Price	8000	29-1/2	235,898.04	26-1/2	212,000	13
	Electrical Equipment						
6/ 9/72	McGraw Edison	5000	43-1/4	216,670.70	40-3/8	201,875	16
	Food and Beverage						
1-, 1/72	Quaker Oats	3000	40-1/2	121,389.50	45	135,000	
11/ 2/72	Quaker Oats	1000	40-7/8	40,864.00	45	45,000	
	Total and Average Price	4000	40-5/8	162,253.50	45	180,000	24
	Food Services						
8/21/72	Servomation Corporation	7500	28-5/8	214,765.80	25-5/8	192,187	
11/10/72	Servomation Corporation	150	Stk Div	.00	25-5/8	3,844	
	Total and Average Price	7650	28-1/8	214,765.80	25-5/8	196,031	14

COMMON STOCK

Date of Purchase	Stocks	No. of Shares	Purchased at Per Share	Purchased at Amount	29 December 1972 Per Share	29 December 1972 Amount	P/E Ratio
	Housing						
2/24/72	Shapell Industries	5000	25-1/2	127,859.50	20-5/8	103,125	12
	Insurance						
9/14/72	Hanover Insurance	1000	52	52,000.00	54-1/4	54,250	
0/19/72	Hanover Insurance	2000	51-3/4	103,575.00	54-1/4	108,500	
1/20/72	Hanover Insurance	200	52	10,400.00	54-1/4	10,850	
	Total and Average Price	3200	51-7/8	165,975.00	54-1/4	173,600	10
5/18/72	Leasco	5000	20-1/2	102,731.20	19-1/8	95,625	7
0/23/72	Monarch Capital Corporation	5000	17	84,925.00	18-1/4	91,250	16
	Office and Business Equipment						
0/27/72	IBM	300	380-1/16	114,020.00	402	120,600	
1/ 8/72	IBM	500	378-5/8	188,925.00	402	201,000	
	Total and Average Price	800	378-5/8	302,945.00	402	321,600	37
	Retail Clothing						
2/24/72	Associated Drygoods	1600	54-7/8	87,826.00	52-1/2	84,000	
3/15/72	Associated Drygoods	2000	58-1/8	116,266.60	52-1/2	105,000	
	Total and Average Price	3600	58-5/8	204,092.60	52-1/2	189,000	18

COMMON ‿ OCK

Date of Purchase	Stocks	No. of Shares	Purchased at Per Share	Purchased at Amount	29 December 1972 Per Share	29 December 1972 Amount	P/E Ratio
	Utilities						
/ 3/72	American Tel & Tel	10000	43-9/16	435,545.00	52-3/4	527,500	
/22/72	American Tel & Tel	5000	52	260,147.00	52-3/4	263,750	
	Total and Average Price	15000	46-3/8	695,692.00	52-3/4	791,250	12
1/64	VEPCO	533	32-3/8	17,241.07	22-3/8	11,926	
,18/64	VEPCO	800	32-15/16	26,331.94	22-3/8	17,900	
	Total and Average Price	1333	32-11/16	43,573.01	22-3/8	29,826	11
				$ 2,969,403.98		$ 2,872,557	

Not shown above are stock options to buy 7,500 shares of Arabian Shield Development Company stock @ $.25 per share. The option is good until July 29, 1975. December 29, 1972, prices on Arabian Shield are 2-1/4 to 2-5/8.

COMMON STOCK

Date of Purchase	Stocks	No. of Shares	Purchased at Per Share	Purchased at Amount	31 Dec 1973 Per Share	31 Dec 1973 Amount	P/E Ratio
	Automotive Supplies						
4/72	Irvin Industries	5000	13-5/8	67,929.63	3	15,000	4
6/72	Javelin Corporation	6000	22-5/16	133,875.00	2	12,000	2
	Broadcasting						
8/72	Metromedia Incorporated	5500	38-1/4	210,218.00	7-3/4	42,625	4
	Electrical Equipment						
6/72	McGraw Edison	5000	43-1/4	216,670.70	19-5/8	98,125	7
	Food and Beverage						
11/72	Quaker Oats	4000	40-5/8	162,253.50	28-7/8	115,500	17
	Food Services						
8/72	Servomation Corporation	7650	28-1/8	214,765.80	11-1/2	87,975	5

COMMON STOCK

Date of Purchase	Stocks	No. of Shares	Purchased at Per Share	Purchased at Amount	31 Dec 1973 Per Share	31 Dec 1973 Amount	P/E Ratio
	Housing						
2/72	Shapell Industries	5000	25-1/2	127,859.50	7-3/4	38,750	3
	Insurance						
2/73	American Reinsurance	8000	42-7/8	342,850.00	24-1/4	194,000	
4/73	American Reinsurance	2000	38-1/2	77,000.00	24-1/4	48,500	
	Total and Average Price	10000	42	419,850.00	24-1/4	242,500	9
1/73	Gulf Life Holdings	24,000	17-3/4	426,572.95	10	240,000	5
9/72	Hanover Insurance	2000	26	52,000.00	12	24,000	
10/72	Hanover Insurance	4000	25-7/8	103,575.00	12	48,000	
11/72	Hanover Insurance	400	26	10,400.00	12	4,800	
	Total and Average Price	6400	25-7/8	165,975.00	12	76,800	8
5/72	Reliance Group	5000	20-1/2	102,731.20	10-1/8	50,625	
2/73	Reliance Group	2000	12-5/8	25,332.00	10-1/8	20,250	
	Total and Average Price	7000	18-1/4	128,063.20	10-1/8	70,875	4
10/72	Monarch Capital Corporation	5000	17	84,925.00	9-3/4	48,750	6
1/73	U.S. Fidelity and Guaranty	1100	40-1/4	44,280.94	36-1/8	39,737	10

COMMON STOCK

Date of Purchase	Stocks	No. of Shares	Purchased at Per Share	Purchased at Amount	31 Dec 1973 Per Share	31 Dec 1973 Amount	P/E Rat
	Retail Clothing						
2/72	Associated Drygoods	1600	54-7/8	87,826.00	26-3/8	42,200	
3/72	Associated Drygoods	2000	58-1/8	116,266.60	26-3/8	52,750	7
	Total and Average Price	3600	56-5/8	204,092.60	26-3/8	94,950	
	Utilities						
5/64	VEPCO	800	32-15/16	26,331.94	14-1/2	11,600	
6/64	VEPCO	533	32-3/8	17,241.07	14-1/2	7,728	
	Total and Average Price	1333	32-11/16	43,573.01	14-1/2	19,328	6
				$ 2,650,904.83		$ 1,242,915	

Not shown above are stock options to buy 7,500 shares of Arabian Shield Development Company stock @$.25 per share. The option is good until July 21, 1974. December 31, 1973 prices on Arabian shield are 1-3/4 - 2-1/4.

COMMON STOCK

Date of Purchase	Stocks	No. of Shares	Purchased at Per Share	Purchased at Amount	31 December 1974 Per Share	31 December 1974 Amount	P/E Ratio
	Automotive Supplies						
2/72	Irvin Industries	5000	13-5/8	67,929.63	1-1/2	7,500	2
6/72	Javelin Corporation	6000	22-5/16	133,875.00	1	6,000	4
	Electrical Equipment						
6/72	McGraw Edison	5000	43-1/4	216,670.70	11-3/8	56,875	6
	Food and Beverage						
11/72	Quaker Oats	4000	40-5/8	162,253.50	13	52,000	6
	Food Services						
8/72	Servomation Corporation	7650	28-1/8	214,765.80	5-1/2	42,075	3

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COMMON STOCK

Date of Purchase	Stocks	No. of Shares	Purchased at Per Share	Purchased at Amount	31 December 1974 Per Share	31 December 1974 Amount	P/E Rati
	Housing						
?/72	Shapell Industries	5000	25-1/2	127,859.50	5-1/2	27,500	3
	Insurance						
2/73	American Reinsurance	8000	42-7/8	342,850.00	13	104,000	
4/73	American Reinsurance	2000	38-1/2	77,000.00	13	26,000	
	Total and Average Price	10000	42	419,850.00	13	130,000	Def
1/73	Gulf Life Holdings	24,000	17-3/4	426,572.95	6-3/8	153,000	4
9/72	Hanover Insurance	2000	26	52,000.00	5-3/4	11,500	
10/72	Hanover Insurance	4000	25-7/8	103,575.00	5-3/4	23,000	
11/72	Hanover Insurance	400	26	10,400.00	5-3/4	2,300	
	Total and Average Price	6400	25-7/8	165,975.00	5-3/4	36,800	5
5/72	Reliance Group	5000	20-1/2	102,731.20	5-3/4	28,750	
?/73	Reliance Group	2000	12-5/8	25,332.00	5-3/4	11,500	
	Total and Average Price	7000	18-1/4	128,063.20	5-3/4	40,250	9
?/72	Monarch Capital Corporation	5000	17	84,925.00	8-3/4	43,750	6
1/73	U.S. Fidelity and Guaranty	1100	40-1/4	44,280.94	25-3/4	28,325	9

COMMON STOCK

Date of Purchase	Stocks	No. of Shares	Purchased at Per Share	Purchased at Amount	31 December 1974 Per Share	31 December 1974 Amount	P/E Rati
	Retail Clothing						
2/72	Associated Drygoods	1600	54-7/8	87,826.00	17-7/8	28,600	
[illegible]/72	Associated Drygoods	2000	58-1/8	116,266.60	17-7/8	35,750	
	Total and Average Price	3600	56-5/8	204,092.60	17-7/8	64,350	6
	Utilities						
5/64	VEPCO	800	32-15/16	26,331.94	8-1/4	6,600	
6/64	VEPCO	533	32-3/8	17,241.07	8-1/4	4,397	
	Total and Average Price	1333	32-11/16	43,573.01	8-1/4	10,997	6
				$ 2,440,686.83		$699,422	

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COMMON STOCK

Date of Purchase	Stocks	No. of Shares	Purchased at		30 September 1975		
			Per Share	Amount	Per Share	Amount	P/E Rat
	Automotive Supplies						
2/72	Irvin Industries	5000	13-5/8	67,929.63	4	20,000	5
[illegible]/72	Javelin Corporation	6000	22-5/16	133,875.00	1	6,000	3
	Electrical Equipment						
6/72	McGraw Edison	5000	43-1/4	216,670.70	18-3/4	93,750	15
	Food and Beverage						
11/72	Quaker Oats	4000	40-5/8	162,253.50	18	72,000	12
	Food Services						
8/72	Servomation Corporation	7650	28-1/8	214,765.80	8-5/8	65,981	6

COMMON STOCK

Date of Purchase	Stocks	No. of Shares	Purchased at Per Share	Purchased at Amount	30 September 1975 Per Share	30 September 1975 Amount	P/E Rat
	Housing						
2/72	Shapell Industries	5000	25-1/2	127,859.50	8-1/8	40,625	6
	Insurance						
2/73	American Reinsurance	8000	42-7/8	342,850.00	13-3/4	110,000	
4/73	American Reinsurance	2000	38-1/2	77,000.00	13-3/4	27,500	
	Total and Average Price	10000	42	419,850.00	13-3/4	137,500	Def
1/73	Gulf Life Holdings	24,000	17-3/4	426,572.95	6-7/8	165,000	7
9/72	Hanover Insurance	2000	26	52,000.00	6-3/8	12,750	
10/72	Hanover Insurance	4000	25-7/8	103,575.00	6-3/8	25,500	
11/72	Hanover Insurance	400	26	10,400.00	6-3/8	2,550	
	Total and Average Price	6400	25-7/8	165,975.00	6-3/8	40,800	Def
5/72	Reliance Group	5000	20-1/2	102,731.20	6-1/8	30,625	
2/73	Reliance Group	2000	12-5/8	25,332.00	6-1/8	12,250	
	Total and Average Price	7000	18-1/4	128,063.20	6-1/8	42,875	Def
-0/72	Monarch Capital Corporation	5000	17	84,925.00	9-1/4	46,250	8
'73	U.S. Fidelity and Guaranty	1100	40-1/4	44,280.94	29-7/8	32,863	12

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COMMON STOCK

Date of Purchase	Stocks	No. of Shares	Purchased at Per Share	Purchased at Amount	30 September 1975 Per Share	30 September 1975 Amount	P/E Ra
	Retail Clothing						
2/72	Associated Drygoods	1600	54-7/8	87,826.00	27	43,200	
3/72	Associated Drygoods	2000	58-1/8	116,266.60	27	54,000	
	Total and Average Price	3600	56-5/8	204,092.60	27	97,200	11
	Utilities						
5/64	VEPCO	800	32-15/16	26,331.94	11-3/4	9,400	
6/64	VEPCO	533	32-3/8	17,241.07	11-3/4	6,263	
	Total and Average Price	1333	32-11/16	43,573.01	11-3/4	15,663	6
				$ 2,440,686.83		$876,507	

NOTES ON THE SCHEDULES OF GAIN OR LOSS
ON THE SALE OF MHMUTUAL INVESTMENTS

Note #1

The MHMUTUAL portfolio, from which the attached schedules of gain or loss on the sale of investments were taken, is not an accounting document in the sense that it is used to account for funds handled by the Activity. The purpose of the portfolio is to provide management with a picture of the investments held by the complex at any point in time. The portfolio is not audited per se, and in past years no attempt was made to insure that each presentation tied directly back to the previous portfolio; that has been done in recent years. Due to the lack of audit, certain errors were not discovered, and they were carried forward to the present. One example is on the 1970 presentation of the sales of stocks to date. The total sale price of $2,226,883.29 when subtracted from the total purchase price of $2,246,793.93 results in a loss of $19,910.64 instead of the loss of $27,802.99 as shown under the column marked gain or (loss) on sales. The total gain on sales to date should therefore be $177,437.51. For some unknown reason, the balance carried forward to the 1971 schedule of gain on the sale of equity is stated as $206,314.47 which involves an overstatement in the cumulative gain on the sale of equity in the amount of $28,876.96. This error has been carried forward to the present.

Note #2

The portfolio figures cannot be directly tied in with the financial statements for MHMUTUAL in the case of bonds since the statements reflect an average cost for all the bonds of a particular issuer, and the appreciation on a discounted bond is recorded as income each year with a commensurate increase in the book value of the bond.

Note #3

The only bond transaction during 1970 was the sale of $50,000 of U.S. Treasury bonds. This transaction is found on the schedule titled "Debenture Investments."

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Extracted from 11/17/69 Portfolio

PORTFOLIO SALES OF STOCKS TO DATE

Date of Purchase	Stocks	No. of Shares	Total Purchase Price	Date of Sale	Net Sale Price	Gain or (Loss) on Sale*
4/22/64	Burlington Industries, Inc.	300	$ 13,812.93	6/ 8/65	20,466.70	$ 6,653.77
4/22/64	National Steel Corporation	300	16,559.22	11/ 4/66	11,992.11	(4,567.11)
7/23/64	Scott Paper Company	1100	37,556.77	11/ 4/66	28,913.79	(8,642.98)
4/2[illegible]/66)						
10/ 2/64	J. C. Penny Company	250	16,278.21	11/ 4/66	13.112.15	(3,166.06)
12/ 7/64	Columbia Broadcasting System	408	16,669.52	11/ 4/66	21,938.58	5,278.06
7/19/65	Scott Foresman & Company	800	20,976.80	11/15/66	23,849.15	2,872.35
[illegible]/30/64	North American Aviation	300	16,332.75	1/16/67	15,052.48	(1,280.27)
5/12/6[illegible])						
1/ 6/66	Corn Products Company	500	26,691.90	9/21/67	22,279.48	(4,412.42)
2/[illegible]/65	General Public Utilities	1500	49,253.63	9/21/67	43,344.42	([illegible])
4/ [illegible]/65	Newmont Mining Corporation	650	50,712.36	12/18/67	56,943.45	6,231.09
8/1[illegible])						
3/13/67	Freeport Sulphur Company	1200	32,613.52	8/ 5/68	48,217.24	15,603.72
3/ 5/64	Chemical Bank N.Y. Trust Company	900	48,683.58	11/27/68	64,901.16	16,217.58
11/[illegible]/64); 1/6/66)						
6/ 8/65	Deere & Company	400	15,904.76	11/27/68	22,370.93	6,4[illegible]
2/17/67	General Reinsurance Corporation	150	43,018.90	11/27/68	54,012.45	10,[illegible]
3/13/67	International Minerals & Chemicals *	1200	51,935.28	11/27/68	25,766.84	(26,1[illegible])
2/ 3/65	Norwich Pharmacal Company	600	14,302.89	11/27/68	26,322.46	12,019.57
3/17/65	Goodyear Tire & Rubber Company	2000	101,334.37	2/28/69	111,416.04	10,081.67
1/6/[illegible]); 2/23/66); 4/23/68)						
3/ 5/64	Gulf Oil Corporation	600	15,544.92	2/28/69	24,917.05	9,372.13
4/13/67	U.S. Gypsum Company	200	13,891.80	2/28/69	16,395.17	2,503.37
6/ 5/65	Weyerhaeuser Company	1000	43,794.46	2/28/69	79,228.60	35,434.14
4/2[illegible]/65)						
[illegible]/11/6[illegible]	McLouth Steel Corporation	4000	164,801.26	4/30/69	154,985.62	(9,815.64)
[illegible]/27/6[illegible]); 1/15/65)						
6/14/67	Searle, (G.D.) & Company	2000	104,089.62	4/30/69	82,959.74	(21,129.88)
4/23/6[illegible])						
11/27/[illegible]	Union Camp Corporation	3000	166,084.80	4/30/69	200,224.06	34,139.26
11/15/[illegible]	American Hospital Supply	6000	150,725.24	10/17/69	241,385.21	9[illegible].97
4/[illegible])						
1/17/67	Northwestern Life Insurance	3000	135,419.79	11/ 7/69	153,333.50	[illegible]13.71
2/20/65)						
			$1,366,980.28		$1,66[illegible],328.93	$[illegible]

* The foreign-based companies are not subject to U.S. taxes on capital gains.
** Net dividends reported are net amounts received after deductions of 30 per cent Federal Withholding Tax.

PORTFOLIO SALES OF STOCKS TO DATE

Date of Sale	Stocks	No. of Shares	Total Purchase Price	Net Sale Price	Gain or (Loss) on Sale
	Sales Through 1969		$1,166,980.28	$1,564,238.43	$[illegible].15
[illegible]/17/70	American Home Products	3000	$ 202,287.09	$ 186,643.75	$(23,[illegible])
4/24/70	American Natural Gas	4000	168,097.93	136,329.65	(31,[illegible])
4/2[illegible]/70	Burlington Industries	4000	175,0[illegible].63	155,637.60	([illegible])
4/1[illegible]/70	Cincinnati Milling Machine	2000	114,323.52	88,475.10	([illegible])
11/ 3/70	Coca Cola	2000	149,665.67	157,575.15	[illegible]
4/10/70	Dr. Pepper	6000	146,521.20	161,748.91	15,[illegible]
6/ 1/70	General Dynamics	2000	98,75[illegible].51	47,168.85	(51,[illegible])
4/10/70	General Foods	1000	77,216.80	84,233.50	7,016.70
4/10/70	Hewlett-Packard	4000	112,991.70	170,3[illegible].97	57,[illegible].77
4/[illegible]/70	IBM	500	110,240.55	147,114.55	36,[illegible]
11/ 3/70	Liberty National Life	6000	138,690.90	130,700.90	([illegible])
4/16/70	National Cash Register	1500	216,000.00	185,649.75	([illegible],351.25)
4/16/70	RCA	4000	160,426.88	102,445.54	(57,981.34)
4/24/70	Skelly Oil Products	1000	69,459.00	31,086.87	(38,372.13)
4/16/70	Tampax	400	36,742.56	81,727.00	44,[illegible]
11/ 3/70	U.S. Fidelity & Guaranty	3000	104,356.00	104,072.90	([illegible].10)
4/10/70	Xerox	3000	175,016.39	257,943.30	82,[illegible]
	Total Sales 1970		$2,246,793.93	$2,226,803.29	$ 37,[illegible].99
	Total Sales to date		$3,613,774.21	$3,791,211.72	$169,[illegible].16

* Foreign-based companies are not subject to U.S. taxes on capital gain.

-4-

12/31/70 Portfolio

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EQUITY SALES TO DATE

Date of Sale	Stocks	No. of Shares	Total Purchase Price	Net Sale Price	Gain or (Loss) on Sale
	Sales Through 1970		$ 3,584,897.25	$ 3,791,211.72	$ 206,314.47
[illegible]/71	Abbott Laboratories	4000	$ 257,534.86	$ 278,083.99	$ 20,549.13
22/71	American Tel. & Tel.	4000	200,373.50	193,615.88	(6,757.62)
[illegible]/71	American Electric Power	5000	185,594.44	141,819.03	(43,775.41)
[illegible]/71	Ampex	4000	146,568.14	89,542.58	(57,025.56)
[illegible]/71	Bankers National Life	1000	29,750.00	33,500.00	3,750.00
[illegible] 71	Bankers National Life	1500	44,625.00	50,550.00	5,925.00
[illegible]/71	Bankers National Life	1000	29,750.00	34,250.00	4,500.00
/14/71	Central & Southwest	1000	48,229.01	46,509.06	(1,719.95)
/1/71	Control Data	1000	143,370.36	37,429.84	(105,940.52)
17/71	Coca Cola	4000	317,479.10	394,210.53	76,731.43
17/71	Continental Telephone	8000	206,557.89	166,917.41	(39,640.48)
/10/71	Chubb Corporation	2000	121,500.00	131,750.00	10,250.00
29/71	Dr. Pepper	2000	33,357.50	63,383.59	30,026.09
22/71	Eastman Kodak	3000	198,656.73	218,339.70	19,682.97
/17/71	Emerson Electric	2500	186,467.44	185,489.51	(977.93)
4/71	Fleetwood Enterprises	1000	38,219.13	46,260.26	8,041.13
[illegible]/71	Ford Motor	3000	154,237.41	181,127.95	26,890.54
22/71	Gillette	3000	165,947.09	133,250.78	(32,696.31)
/14/71	Hardee Foods	5000	60,000.00	69,224.35	9,224.35
5/71	Houston Natural Gas	60	3,124.15	2,905.16	(218.99)
/14/71	Johns Manville	6000	236,419.64	256,064.84	19,645.80
5/71	Liberty National Life	6000	131.279.00	178.200.00	46,921.00
21/71	MMM	2000	163,032.52	230,733.41	67,700.89
[illegible]/71	National Cash Register	2000	106,738.00	78,830.54	(27,907.46)
[illegible]/71	Pepsico	4000	238,440.41	255,933.19	17,492.78
25/71	Pillsbury	2000	94,178.57	107,153.84	12,975.27
18/71	Reynolds Metals	1000	55,407.47	21,025.77	(34,381.70)
16/71	Scott Paper	5000	166,649.10	117,592.02	(49,057.08)
/15/71	Shappell Industries	4000	129,643.25	137,822.01	8,178.76
20/71	Southern Company	10000	281,317.00	197,966.00	(83,351.00)
27/71	Sterling Drug	4000	121,807.73	172,658.95	50,851.22

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<u>EQUITY S[illegible]S TO DATE</u>

Date of Sale	Stocks	No. of Shares	Total Purchase Price	Net Sale Price	Gain or (Loss) on Sale
[illegible]/29/71	U.S. Fidelity & Guaranty	3500	127,361.80	160,076.64	32,714.84
8/18/71	U.S. Fidelity & Guaranty	3500	154,000.00	172,835.59	18,835.59
7/30/71	Universal Oil Products	4000	113,444.75	102,221.53	(11,223.22)
12/15/71	Warner Lambert	2500	102,928.50	105,513.66	2,585.16
[illegible]/29/71	Western Casualty & Surety	400	25,000.00	31,180.00	6,180.00
8/18/71	Western Casualty & Surety	1400	93,400.00	112,150.00	18,750.00
8/19/71	Western Casualty & Surety	2200	139,975.00	174,900.00	34,925.00
6/24/71	Xerox	2000	161,652.30	221,942.48	60,290.18
	Total Sales 1971				$ 118,943.90
	Total Sales to Date				$ 325,258.37

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EQUITY SALES TO DATE

Date of Sale	Stocks	No. of Shares	Total Purchase Price	Net Sale Price	Gain or (Loss) on Sale
	Sales Through 1971				$ 325,258.37
1/ 1/72	American Reinsurance	8000	$ 331,687.40	386,350.00	$ 54,662.60
9/ 8/72	Ashland Oil	8000	220,314.00	235,986.93	15,672.93
8/ 5/72	Combined Insurance Company	5000	122,500.00	131,375.00	8,875.00
6/ 2/72	Combustion Engineering	5000	335,186.57	364,278.67	29,092.10
1/21/72	Crum & Forster	2000	59,750.00	60,712.50	962.50
8/18/72	Crum & Forster	3000	89,625.00	99,000.00	9,375.00
2/11/72	Dean Witter	300	6,900.00	8,196.36	1,296.36
1/ 6/72	Gulf Life Holdings	2700	137,927.17	151,531.74	13,604.57
1/ 9/72	Gulf Life Holdings	1200	60,574.92	66,958.65	6,383.73
1/10/72	Gulf Life Holdings	2100	104,372.42	119,390.69	15,018.27
1/18/72	Hanover Insurance	2000	75,450.00	98,750.00	23,300.00
9/ 7/72	IBM	400	110,281.00	159,316.80	49,035.80
4/ 3/72	International Tel & Tel	7000	433,870.42	394,861.05	(39,009.37)
8/17/72	John Deere	5000	321,474.10	358,647.16	37,173.06
1/ 2/72	Life Insurance of Georgia	2500	83,125.00	93,000.00	9,875.00
3/ 7/72	Nationwide Corporation	10000	110,000.00	130,875.00	20,875.00
1/ 7/72	Ohio Casualty	1000	43,750.00	49,000.00	5,250.00
8/ 9/72	Old Line Life Insurance Company	500	16,925.00	21,875.00	4,950.00
8/10/72	Old Line Life Insurance Company	6000	203,115.88	262,500.00	59,384.12
9/14/72	Texaco	4000	149,365.60	133,935.30	(15,430.30)
	Total Sales 1972				$ 310,346.37
	Total Sales to Date				$ 635,604.74

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12/31/72

EQUITY SALES TO DATE

ecurity	No. of Shares	Date of Purchase	Date of Sale	Purchase Price	Sales Price	Gain or (Loss) on Sale
ales through 1972						$635,604.74
merican Tel and Tel	10000	4/72	1/73	43-9/16	53-1/2	99,609.74
merican Tel and Tel	5000	12/72	1/73	52	53-7/8	9,450.35
	800	11/72	2/73	378-5/8	430-7/8	41,772.09
erican Tel and Tel	1000	2/73	5/73	51	51-1/4	264.99
merican Tel and Tel	9000	2/73	6/73	51	50-7/8	(1,123.68)
.S. Fidelity and Guaranty	2000	1/73	7/73	40-1/4	41-7/8	3,162.80
ngersoll Rand	4000	1/73	10/73	67-3/8	72-1/2	20,544.91
ontinental Corp	5000	2/73	10/73	40-5/8	40	(3,549.37)
. R. Grace	8000	1/72	10/73	29-1/2	28	(11,136.53)
.S. Fidelity and Guaranty	1000	1/73	11/73	40-1/4	40-1/4	24.01
hio Casualty	1000	2/73	11/73	44-3/8	44-3/4	375.00
hio Casualty	4000	2/73	11/73	44-3/8	44-1/2	500.00
afeco Corp	4000	2/73	11/73	50-7/8	49-1/8	(7,000.00)
.S. Fidelity & Guaranty	2900	1/73	11/73	40-1/4	39-3/8	(2,447.28)
Total Sales 1973						$150,447.03
Total Sales to Date						$786,051.77

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EQUITY SALES TO DATE

...ity	No. of Shares	Date of Purchase	Date of Sale	Purchase Price	Sales Price	Gain or (Loss) on Sale
...e through 1973						$786,051.77
...media	5,610	8/72	7/74	37-1/2	5-7/8	(176,996.04)
...an Shield Devel. Co.	7,500	4/74	10/74	1/4	13/16	4,200.00
...cals						$613,255.73

1/1/75

EQUITY SALES TO DATE

ecurity	No. of Shares	Date of Purchase	Date of Sale	Purchase Price	Sales Price	Gain or (Loss) on Sale
ales through 1974						$613,255.73

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9/1/75

CIA Domestic Real Property Holdings*

CIA has a variety of real property holdings in the United States ranging from the major, overt Headquarters complex in McLean, Virginia, to small leased "safehouse" apartments in many cities. Real property holdings also include seven CIA-controlled installations used as training sites, supply depots, research and development centers, and communications transmitting and receiving facilities. The 237 domestic real property holdings are summarized for this report as follows:

a. Overt or nominal properties (overt properties are identified as CIA; nominal properties as Executive Office of the President, but CIA control is admitted upon request) of which there are sixty-two (62);

b. Official cover properties (identified as under the control of other U.S. Government agencies and CIA relationship is classified from CONFIDENTIAL through TOP SECRET) of which there are fifty-three (53);

c. Safehouses (properties, generally apartments or residences and generally leased, acquired for covert meetings) of which there are eighty-one (81); and

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* The information contained in this section has extreme sensitivity as a grouped data package. It lists the entirety of CIA real property holdings and personnel assets in the United States as of 13 January 1975; accordingly, release, unauthorized disclosure, or loss of this information would have severe operational impact on the activities of CIA.

d. Non-official properties (identified as private firms which may be wholly or partially controlled by CIA and housing CIA employees) of which there are forty-one (41).

Attachment 1 lists CIA domestic real property and provides specific addresses for all overt and nominal CIA real property holdings. Official cover properties, safehouses, and non-official properties are listed by general location. Numbers of personnel and utilization purpose are shown for each category of real property. This report is developed as a real property summary; therefore, personnel data supplied are predominantly based on CIA space utilization reports, and slight variation may exist in some instances. A limited number of CIA personnel are located in non-CIA-controlled space -- for example, in the Pentagon, in private residences, or in commercial companies -- and these properties are not listed in this real property summary. Non-official properties not occupied by CIA staff or contract employees are not listed. Attachment 2 is a summary sheet of all the previous figures.

SECRET

Attachment 1

DOMESTIC REAL PROPERTY LISTING

Location	Street Address	Personnel	Purpose
Washington, D. C. & Suburbs			
A. Overt & Nominal Properties			
Langley, Va	Route 123 (CIA)	7,469	Hqs. admin. offices & printing bldg.
Washington, D. C.	Central Bldg. 2430 E St. N.W. (CIA)	88	Technical labs & offices
Washington, D. C.	East Bldg. 2430 E St. N.W. (CIA)	28	Technical labs & offices
Washington, D. C.	South Bldg. 2430 E St. N.W. (CIA)	307	Technical labs & offices
Oxon Hill, Md	10530 Riverview Rd. (FBIS)	4	Counter-audio training & FBIS antenna field
Washington, D. C.	Navy Yard, Bldg. 213, 1st & M, S.E. (EOP)	1,265	Photo development & analysis
Washington, D. C.	Navy Yard, Bldg. 159E, 1st & M, S.E. (EOP)	45	Map storage
Washington, D. C.	Navy Yard, Bldg. 202, 1st & M, S.E. (EOP)	0	Storage
Rosslyn, Va	Ames Bldg., 1820 N. Ft. Myer Dr. (EOP)	510	Hqs. admin. offices
Rosslyn, Va	Key Bldg., 1200 Wilson Blvd. (EOP)	668	Hqs. admin. offices
Rosslyn, Va	Magazine Bldg., 1815 N. Lynn St. (EOP)	340	Hqs. admin. offices
Franconia, Va	(EOP)	213	Supply depot & R&D shops
McLean, Va	Tyler Bldg., 1759 Old Meadows Rd. (EOP)	274	Elint & tech. admin. offices
Arlington, Va	Chamber Commerce Bldg, 4600 N. Fairfax (EOP)	364	Hqs. trng. offices
Alexandria, Va	901 Columbus Rd. (EOP)	4	Technical training area
Washington, D. C.	AJAX Bldg., 1901 Penna Ave., N.W. (EOP)	9	U.S. resident contact
Arlington, Va	1000 Glebe Road (EOP)	9	FBIS photo & printing
B. Official Cover Properties			
3 Locations		18	Research & operational support
4 Locations		84	Translation & operational support
1 Location		22	Foreign intell. collection
1 Location		5	Supply depot & ELINT training
1 Location		48	Counter audio lab & office
1 Location		8	Document research analysis
1 Location		15	Training lab & office
1 Location		62	Field investigation office

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DOMESTIC REAL PROPERTY LISTING

Location	Street Address	Personnel	Purpose
C. Safehouses			
37 Locations		N.A.	Covert meetings
D. Non-Official Properties			
1 Location		13	Manages agent accounts & cover backstop
1 Location		1	Operational support (dormant)
1 Location		1	Foreign intelligence collection
2 Locations		13	Human source assessment
1 Location		3	Debriefing site
1 Location		3	Mgt. services for proprietaries
1 Location		2	Research & operational support
1 Location		2	Public opinion analysis
1 Location		16	Research admin. office
1 Location		1	Travel support
1 Location		3	Translation
1 Location		3	Airline, foreign operational supp.
1 Location		9	Airline, covert admin. travel
1 Location		3	Covert procurement, general
1 Location		4	Covert commercial audit
Arizona	1 Non-Official Installation	11	Aviation equip. R&D and procure.
California			
A. Overt & Nominal Properties			
Los Angeles, Ca	312 North Spring Street (EOP)	13	U.S. resident contact
San Francisco, Ca	Customs Hse, 555 Battery St. (EOP)	14	U.S. resident contact
San Diego, Ca	Gross Ctr. Bldg, 3045 Rosecrans St. (EOP)	2	U.S. resident contact
Hawthorne, Ca	Fed. Bldg., 15000 Creation Road (EOP)	1	Personnel & recruiting office

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DOMESTIC REAL PROPERTY LISTING

Location	Street Address	Personnel	Purpose
California			
B. Official Cover Properties			
2 Locations		38	Field investigation office
2 Locations		14	Foreign intelligence collection
1 Location		14	Paper plant
1 Location		8	Field procurement office
1 Location		1	Field supply office
1 Location		22	Gen. admin. support to sensitive projects
1 Location		3	Air logistics support
1 Location		1	Audit of covert operations
C. Safehouses			
12 Locations		N.A.	Covert meetings
D. Non-Official Cover			
1 Location		9	Covert Commercial investigation
4 Locations		4	Foreign intelligence collection
1 Location		19	Management & admin. of sensitive projects
3 Locations		13	Contractor liaison, sensitive projects
Colorado			
A. Overt & Nominal Properties			
Denver, Co	Bankers Bldg., 2401 E 2nd St. (EOP)	7	U.S. resident contact
Denver, Co	Bldg. 56 DFC, 6th & Kipling Sts. (EOP)	1	Field recuriting office
Connecticut			
A. Overt & Nominal Properties			
Hartford, Ct	Fed. Bldg., 450 Main St. (EOP)	3	U.S. resident contact

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DOMESTIC REAL PROPERTY LISTING

Location	Street Address	Personnel	Purpose
Florida			
A. Overt & Nominal Properties			
Key West, Fl	U.S. Naval Base (FBIS)	5	Foreign broadcast station
Coral Gables, Fl	R&N Bldg., 299 Alambra Cir. (EOP)	6	U.S. resident contact
B. Official Cover Properties			
2 Locations		25	Foreign intelligence station
1 Location		33	Foreign commo. center
1 Location		16	Field investigation office
C. Safehouses			
2 Locations		N.A.	Covert meetings
D. Non-Offical Cover			
1 Location		3	Administers survivers' benefits
2 Locations		7	R&D and procurement, aviation equipment
1 Location		9	Cuban propaganda operations
Georgia			
A. Overt & Nominal Properties			
Atlanta, Ga	3 Dunwoody Park (EOP)	3	U.S. resident contact
B. Official Cover Properties			
1 Location		6	Foreign intelligence collection
Hawaii			
A. Overt & Nominal Properties			
Honolulu, Hi	Dellingham Bldg., 735 Bishop St. (EOP)	3	U.S. resident contact

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DOMESTIC REAL PROPERTY LISTING

Location	Street Address	Personnel	Purpose
Hawaii			
B. Official Cover Properties			
1 Location		5	Field liaison CINCPAC
1 Installation		9	Commo relay station
Illinois			
A. Overt & Nominal Properties			
Chicago, Ill	Derksen Bldg., 219 S Dearborn St. (EOP)	1	Field recruiting office
Chicago, Ill	Derksen Bldg., 219 S Dearborn St. (EOP)	10	U.S. resident contact
B. Official Cover Properties			
1 Location		22	Field Investigation office
1 Location		11	Foreign intelligence collection
C. Safehouses			
2 Locations		N.A.	Covert meetings
Indiana			
A. Overt & Nominal Properties			
Indianapolis, In	Fed. Bldg., 46 E. Ohio St. (EOP)	2	U.S. resident contact
Louisiana			
A. Overt & Nominal Properties			
New Orleans, La	Masonic Bldg., 333 St. Charles St. (EOP)	2	U.S. resident contact

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DOMESTIC REAL PROPERTY LISTING

Location	Street Address	Personnel	Purpose
Massachusetts			
A. Overt & Nominal Properties			
Cambridge, Ma	Beta Bldg., 545 Technology (EOP)	12	U.S. resident contact
Boston, Ma	Fed. Bldg., Government Center (EOP)	1	Field recruiting office
B. Official Cover Properties			
1 Location		13	Field investigation office
1 Location		7	Foreign intelligence collection
C. Safehouses			
2 Locations		N.A.	Covert meetings
Maryland			
A. Overt & Nominal Properties			
Highland Pk, Md	14048 Woodward St. (EOP)	7	U.S. resident contact
Baltimore, Md	103 S. Gay Street (EOP)	2	U.S. resident contact
B. Official Cover Properties			
1 Location		11	Maritime research & training
1 Location		1	Security liaison
1 Location		6	Training facility
C. Safehouses			
1 Location		N.A.	Covert meetings

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DOMESTIC REAL PROPERTY LISTING

Location	Street Address	Personnel	Purpose
Minnesota			
A. Overt & Nominal Properties			
Minneapolis, Mn	Fed. Bldg., Ft. Snelling (EOP)	7	U.S. resident contact
St. Paul, Mn	Fed. Bldg., 316 Robert St. (EOP)	1	Field recruiting office
Missouri			
A. Overt & Nominal Properties			
St. Louis, Mo	Fed. Bldg., 1520 Market St. (EOP)	6	U.S. resident contact
Overland, Mo	MPRC Bldg., 9700 Page Blvd. (EOP)	2	Field investigation office
Kansas City, Mo	Fed. Bldg., 601 East 12th St. (EOP)	1	Field recruiting office
Nevada			
A. Overt & Nominal Properties			
None			
B. Official Cover Properties			
1 Location		35	Training & R&D installation
New York			
A. Overt & Nominal Properties			
New York, NY	575 Lexington Avenue (EOP)	28	U.S. resident contact
New York, NY	Fed. Bldg., 26 Federal Plaza (EOP)	1	Field recruiting office
Niagara, NY	United Office Bldg., 220-222 First St. (EOP)	2	U.S. resident contact
Schenectady, NY	650 Franklin St. (EOP)	3	U.S. resident contact
Syracuse, NY	Loew Bldg., 108 W. Jefferson St. (EOP)	5	U.S. resident contact

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DOMESTIC REAL PROPERTY LISTING

Location	Street Address	Personnel	Purpose
New York			
B. Official Cover Properties			
1 Location		30	Foreign intelligence collection
1 Location		22	Field investigation office
1 Location		2	Photo procurement, foreign persons
C. Safehouses			
23 Locations		N.A.	Covert meetings
D. Non-Official Properties			
1 Location		9	Foreign newspaper service
2 Locations		11	Foreign intelligence collection
2 Locations		7	Proprietary management services
3 Locations		28	Overseas book distribution
1 Location		2	Contractor's Liaison
North Carolina			
1 Official Cover Installation		24	Field training facility
Ohio			
A. Overt & Nominal Properties			
Cleveland, Oh	Fed. Bldg., 1240 E 9th St. (EOP)	3	U.S. resident contact
Cincinnati, Oh	Fed. Bldg., 553 Main St. (EOP)	3	U.S. resident contact
B. Official Cover Properties			
1 Location		5	Foreign intelligence collection

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DOMESTIC REAL PROPERTY LISTING

Location	Street Address	Personnel	Purpose
Oklahoma			
A. Overt & Nominal Properties			
Tulsa, Ok	Center Office Bldg., 630 W. 7th (EOP)	2	U.S. resident contact
Oregon			
A. Overt & Nominal Properties			
Portland, Or	Courthouse, Broadway & Main Sts. (EOP)	1	Field recruiting office
Pennsylvania			
A. Overt & Nominal Properties			
Philadelphia, Pa	Fed. Bldg., 600 Arch Street (EOP)	7	U.S. resident contact
Philadelphia, Pa	Fed. Bldg., 600 Arch Street (EOP)	1	Field recruiting office
Pittsburgh, Pa	Fed. Bldg., 1000 Liberty Ave. (EOP)	8	U.S. resident contact
Pittsburgh, Pa	Fed. Bldg., 1000 Liberty Ave. (EOP)	1	Field recruiting office
Tennessee			
1 Non-Official Installation		(47 Company)	Aviation equipment procurement & R&D
Texas			
A. Overt & Nominal Properties			
Austin, Tx	Fed. Bldg., 300 E. 8th St. (EOP)	1	Field recruiting office
Austin, Tx	Fed. Bldg., 300 E. 8th St. (EOP)	1	U.S. resident contact
Dallas, Tx	Courthouse, 1100 Commerce St. (EOP)	7	U.S. resident contact
Houston, Tx	Courthouse, 515 Rusk Ave. (EOP)	4	U.S. resident contact
B. Official Cover Properties			
1 Installation		2	Ordnance depot

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DOMESTIC REAL PROPERTY LISTING

Location	Street Address	Personnel	Purpose
Texas			
C. Safehouses			
1 Location		N.A.	Covert meetings
Utah			
A. Overt & Nominal Properties			
Salt Lake, Ut	Fed. Bldg., 125 S. State St. (EOP)	2	U.S. resident contact
Virginia			
A. Overt & Nominal Properties			
Richmond, Va	Fed. Bldg., 400 N. 8th St. (EOP)	3	U.S. resident contact
B. Official Cover Properties			
1 Installation (4 Stations)		286	Records Center, Training, R&D, Commo Facilities
1 Installation		76	Field Training Site
1 Location		72	Technical R&D
1 Installation		3	R&D project
1 Location		0	Minor ordnance storage
Washington			
A. Overt & Nominal Properties			
Seattle, Wa	Courthouse, 1010 Fifth Ave. (EOP)	5	U.S. resident contact
B. Official Cover Properties			
1 Location		24	Foreign equipment analysis

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DOMESTIC REAL PROPERTY LISTING

Location	Street Address	Personnel	Purpose
Washington			
C. Safehouses			
1 Location		N.A.	Covert meetings
D. Non-Official Properties			
1 Location		3	Contractor liaison
Wisconsin			
A. Overt & Nominal Properties			
Milwaukee, Wi	Courthouse, 517 E. Wisconsin Ave. (EOP)	2	U.S. resident contact

CIA Domestic Real Property Summary Sheet

Location	Overt & Nominal	Official	Safehouses	Non-Official	TOTAL
Washington, D. C. and Suburbs	17	13	37	16	83
Arizona				1	1
California	4	10	12	9	35
Colorado	2				2
Connecticut	1				1
Florida	2	4	2	4	12
Georgia	1	1			2
Hawaii	1	2			3
Illinois	2	2	2		6
Indiana	1				1
Louisiana	1				1
Maryland	2	3	1		6
Massachusetts	2	2	2		6
Minnesota	2				2
issouri	3				3
Nevada		1			1
New York	5	3	23	9	40
North Carolina		1			1
Ohio	2	1			3
Oklahoma	1				1
Oregon	1				1
Pennsylvania	4				4
Tennessee				1	1
Texas	4	1	1		6
Utah	1				1
Virginia	1	8			9
Washington	1	1	1	1	4
Wisconsin	1				1
TOTALS	62	53	81	41	237

29 AUG 1973

MEMORANDUM FOR: Deputy Director for Science and Technology
Deputy Director for Intelligence
Deputy Director for Management and Services
Deputy Director for Operations

INFO : Inspector General

SUBJECT : Questionable Activities

1. As an aspect of the allegations of improper CIA activity in connection with the Watergate and associated matters, the Inspector General was directed to assemble all information available in the Agency on any such activities. Certain specific matters were provided to him, and the Director by memorandum of 9 May 1973 directed all employees to report any activities, current or past, "which might be construed to be outside the legislative charter of this Agency." This information was assembled and consolidated by the Inspector General in a memorandum of 21 May 1973 and certain individual memoranda thereafter supplementing it. This material was used in a detailed, page-by-page review of all such information with Senator Symington and Congressman Nedzi, as Chairmen of the Senate and the House Armed Services Intelligence Subcommittees, respectively. In addition, I undertook very specific commitments in my confirmation hearings to ensure that the Agency will remain within its legislative charter. I am arranging for the published transcripts of those hearings to be circulated throughout the Agency for compliance, and at that time will reaffirm the specific direction made by Dr. Schlesinger in his memorandum of 9 May 1973. This will also be incorporated into appropriate regulations.

2. With respect to the specific questionable activities which were reported as a result of the search made throughout the Agency, however, I believe it essential to take specific action in order that these not seem to be condoned or overlooked. I have therefore developed specific instructions on each reported activity. These are included in the attachments to this memorandum, and have the force of specific direction to you to pass on to appropriate subordinates the instructions outlined. Separate packages of such instructions are being developed for each Directorate in order to respect the sensitivity of some of the activities discussed, including those which are deemed quite appropriate within CIA's charter.

FROM

JUN 25 1975

E2 IMPDET CL BY 056047

SECRET—EYES ONLY

Similarly, each activity is placed on a separate page so that the Deputy Director concerned may most easily forward it to the office or offices directly concerned without distributing it more broadly.

3. In the event that these instructions raise substantial difficulties of implementation or compliance, I would appreciate your raising such cases with me directly, with whatever recommendations you may have for modification to carry out the spirit of the action undertaken here but to avoid undue disruption of legitimate activities. In the absence of such notice, I will expect full compliance with the instructions outlined herein.

4. Each addressee Deputy Director is instructed to recommend to the DDM&S modification or addition to Agency regulations of appropriate language to reflect the direction included in this memorandum and attachments addressed to him. DDM&S will be responsible for consolidating such recommendations and making an overall report to the Director through the IG, coordinating with General Counsel.

W. E. Colby

W. E. Colby

Attachments

EC:ydc (27 August 1973)

istribution:
Original - IG
1 - Mr. Colby
1 - DDS&T
1 - DDI
1 - DDM&S
1 - DDO
1 - OGC - w/o atts
1 - OLC - w/o atts
1 ER (w/o atts - being held in IG file)

R[illegible]D FROM
JUN 25 1975
CIA

SECRET—EYES ONLY

MEMORANDUM

SUBJECT: Domestic Proprietary Companies

Corporate cover, as managed by the Cover and Commercial Staff, is an appropriate support for our overseas operations. To the degree that domestic proprietary or cover companies are required, a clear justification will be developed as to the relationship of their support of our overseas operations.

3.

MEMORANDUM

SUBJECT: Project MHMUTUAL

Project MHMUTUAL will be operated in conformance with appropriate legal restrictions. Arrangements are being made for the briefing of the appropriate Congressional committees. Particular attention will be given to avoiding any possible conflict of interest situations with firms with which the Agency has contracts. Particular concern will also be exhibited over possible improper influence on the stock market or stock dealings through the investments involved in MHMUTUAL.

RECEIVED FROM
JUN 25 1975
CIA

SECRET—EYES ONLY

SECRET
EYES ONLY

MEMORANDUM

SUBJECT: Domestic Proprietary Companies

Corporate cover, as managed by the Cover and Commercial Staff, is an appropriate support for our overseas operations. To the degree that domestic proprietary or cover companies are required, a clear justification will be developed as to the relationship of their support of our overseas operations.

Suggested addition:

Corporate cover, including notional companies, as managed by the Cover and Commercial Staff, is an appropriate support for our overseas operations. To the degree that domestic proprietary or cover companies are required, a clear justification will be developed as to the relationship of their support of our overseas operations.

SECRET

EYES ONLY

SECRET
EYES ONLY

MEMORANDUM

SUBJECT: Project MHMUTUAL

Project MHMUTUAL will be operated in conformance with appropriate legal restrictions. Arrangements are being made for the briefing of the appropriate Congressional committees. Particular attention will be given to avoiding any possible conflict of interest situations with firms with which the Agency has contracts. Particular concern will also be exhibited over possible improper influence on the stock market or stock dealings through the investments involved in MHMUTUAL.

The DDO has no problem with this as written.

SECRET
EYES ONLY